

**MARKET CONDUCT EXAMINATION REPORT**

**OF**

**ALLSTATE INSURANCE COMPANY**

**ALLSTATE INDEMNITY COMPANY**

**ALLSTATE PROPERTY AND CASUALTY**

**INSURANCE COMPANY**

**AS OF**

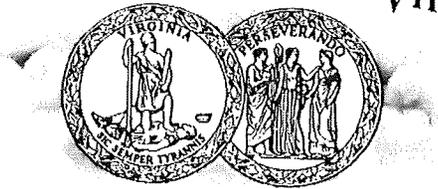
**MAY 31, 2013**

**COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE**

**Property and Casualty Division  
Market Conduct Section**

# COMMONWEALTH OF VIRGINIA

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## STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Karen S. Gerber, Senior Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of Allstate Insurance Company, Allstate Indemnity Company, and Allstate Property and Casualty Company as of May 31, 2013, conducted at the companies' office in Richmond, Virginia is a true copy of the original Report on file with the Bureau and also includes a true copy of the companies' response to the findings set forth therein, and a true copy of the Bureau's review letters and the State Corporation Commission's Order in Case No. INS-2015-00063 finalizing the Report.

**IN WITNESS WHEREOF**, I have  
hereunto set my hand and affixed  
the official seal of this the Bureau  
at the City of Richmond, Virginia,  
this 18th day of June, 2015.

A handwritten signature in cursive script, reading 'Karen S Gerber', written over a horizontal line.

Senior Examiner's Name

Examiner in Charge

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## INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a comprehensive examination has been made of the private passenger automobile and homeowner lines of business written by Allstate Insurance Company, Allstate Indemnity Company, and Allstate Property and Casualty Company at their office in Richmond, Virginia.

The examination commenced January 13, 2014 and concluded May 29, 2014. Brandon L. Ayers, Andrea D. Baytop, William T. Felvey, Karen S. Gerber, Ju'Coby D. Hendrick, Richard L. Howell, Melody S. Morrissette, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Supervisor of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on June 17, 2013, and was assigned the examination number of VA 177-M8. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

## COMPANY PROFILES\*

Allstate Insurance Company was incorporated February 9, 1931 under the laws of Illinois and began business April 17 of the same year.

Allstate Indemnity Company was incorporated July 7, 1960 under the laws of Illinois. It began business December 12 of the same year.

Allstate Property and Casualty Insurance Company was incorporated under the laws of Illinois on February 14, 1985. The company commenced operations April 1, 1985.

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\* Source: Best's Insurance Reports, Property & Casualty, 2012 Edition.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date that the companies were licensed in Virginia except as noted in the table.

<b>GROUP CODE: 008</b>	<b>AIC</b>	<b>AINDC</b>	<b>APCIC</b>
<b>NAIC Company Number</b>	19232	19240	17230
LICENSED IN VIRGINIA	9/30/1938	5/24/1966	7/2/2001
<b>LINES OF INSURANCE</b>			
Accident and Sickness	X	10/16/1979	X
Aircraft Liability	X	10/16/1979	X
Aircraft Physical Damage	X		X
Animal			X
Automobile Liability	X	X	X
Automobile Physical Damage	X	X	X
Boiler and Machinery	X	10/16/1979	X
Burglary and Theft	X	10/16/1979	X
Commercial Multi-Peril	X	10/16/1979	X
Credit	X	10/16/1979	
Farmowners Multi-Peril	X	X	X
Fidelity	X	10/16/1979	X
Fire	X	10/16/1979	X
General Liability	X	10/16/1979	X
Glass	X	10/16/1979	X
Homeowner Multi-Peril	X	X	X
Inland Marine	X	10/16/1979	X
Miscellaneous Property	X	10/16/1979	X
Ocean Marine	X	10/16/1979	X
Surety	X	10/16/1979	X
Water Damage	X	10/16/1979	X
Workers' Compensation	X	X	X

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2012 for those lines of insurance included in this examination.\* This business was developed through captive agents.

<b>COMPANY AND LINE</b>	<b>PREMIUM VOLUME</b>	<b>MARKET SHARE</b>
<b>Allstate Insurance Company</b>		
Homeowners Multi-Peril	\$82,952,206	4.57%
Private Automobile Liability	\$86,377,778	3.47%
Private Automobile Physical Damage	\$91,341,283	4.99%
<b>Allstate Indemnity Company</b>		
Homeowners Multi-Peril	\$72,025,352	3.97%
Private Automobile Liability	\$4,250,282	.17%
Private Automobile Physical Damage	\$3,371,737	.18%
<b>Allstate Property and Casualty Insurance Company</b>		
Homeowners Multi-Peril	\$43,423,161	2.39%
Private Automobile Liability	\$96,878,694	3.90%
Private Automobile Physical Damage	\$85,300,317	4.66%

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\* Source: The 2012 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

## SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger automobile and homeowner lines of business written in Virginia for the period beginning June 1, 2012 and ending May 31, 2013. This review included rating and underwriting, policy terminations, claims handling, forms, policy issuance,<sup>1</sup> statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the companies failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the companies' practices that require some action by the companies. This section also summarizes the violations for which the companies were cited in previous examinations.

The examiners may not have discovered every unacceptable or non-compliant activity in which the companies engaged. The failure to identify, comment on, or criticize

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<sup>1</sup> Policies reviewed under this category reflected the company's current practices and, therefore, fell outside of the exam period.

specific company practices does not constitute an acceptance of the practices by the Bureau.

### **STATISTICAL SUMMARY**

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

AREA	Population				FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
	19240	19232	17230	TOTAL				
<b><u>Private Passenger Auto</u></b>								
New Business <sup>1</sup>	0	0	<u>15770</u>	<u>15770</u>	27	0	24	89%
Renewal Business <sup>2</sup>	<u>5664</u>	<u>249988</u>	<u>259613</u>	<u>515265</u>	59	0	47	80%
Co-Initiated Cancellations <sup>3</sup>	20	20	20	60				
	0	3	<u>325</u>	<u>325</u>	13	0	3	23%
All Other Cancellations <sup>3</sup>	<u>2371</u>	<u>38917</u>	<u>15983</u>	<u>57271</u>	31	0	21	68%
	8	8	8	24				
Nonrenewals <sup>3</sup>	<u>19</u>	<u>46</u>	<u>699</u>	<u>764</u>	11	0	0	0%
	3	3	3	9				

**Homeowner**

New Business	<u>20144</u>		<u>10094</u>	<u>30238</u>	35	0	15	43%
	20	0	15	35				
Renewal Business	<u>91307</u>	<u>81227</u>	<u>42414</u>	<u>214948</u>	65	0	37	57%
	25	25	15	65				
Co-Initiated Cancellations <sup>3</sup>	<u>86</u>	<u>10</u>	<u>705</u>	<u>801</u>	32	0	8	25%
	11	10	19	40				
All Other Cancellations <sup>3</sup>	<u>49649</u>	<u>16076</u>	<u>9146</u>	<u>74871</u>	55	0	26	47%
	23	24	8	55				
Nonrenewals <sup>3</sup>	<u>483</u>	<u>1548</u>	<u>158</u>	<u>2189</u>	24	0	1	4%
	8	8	3	19				

**Claims**

Auto <sup>4</sup>	<u>2134</u>	<u>61298</u>	<u>74902</u>	<u>138334</u>	117	0	66	56%
	26	48	51	125				
Property <sup>5</sup>	<u>8948</u>	<u>9567</u>	<u>5820</u>	<u>24335</u>	119	0	63	53%
	47	48	34	129				

Footnote <sup>1</sup> 2 policies were voided. 1 policy was moved from RB to NB

Footnote <sup>2</sup> 1 RB policy moved to NB

Footnote <sup>3</sup> The company was unable to provide accurate termination data. Files were moved to the appropriate category.

Footnote <sup>4</sup> 7 files were invalid and not reviewed

Footnote <sup>5</sup> 9 files were invalid and not reviewed. 1 filed moved to Auto category

## **PART ONE - THE EXAMINERS' OBSERVATIONS**

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

### **RATING AND UNDERWRITING REVIEW**

#### **Automobile New Business Policies**

The Bureau reviewed 27 new business policy files. As a result of this review, the examiners found overcharges totaling \$1,030.56 and undercharges totaling \$65.09. The net amount that should be refunded to insureds is \$1,030.56 plus six percent (6%) simple interest.

- (1) The examiners found five violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (2) The examiners found two violations of § 38.2-1905 A of the Code of Virginia.
  - a. In one instance, the company failed to notify the insured in writing that his policy had been surcharged for an at-fault accident.
  - b. In one instance, the company failed to provide the specific accident date applicable to the surcharge on the policy.
- (3) The examiners found 43 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In three instances, the company failed to use the correct discounts and/or surcharges.

- b. In 38 instances, the company failed to use the correct symbol and/or model year.
- c. In one instance, the company failed to use the correct territory.
- d. In one instance, the company failed to use the correct base and/or final rates.

### **Automobile Renewal Business Policies**

The Bureau reviewed 59 renewal business policy files. As a result of this review, the examiners found overcharges totaling \$2,394.77 and undercharges totaling \$330.57. The net amount that should be refunded to insureds is \$2,394.77 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy. The company failed to list all forms applicable to the policy on the declarations page.
- (2) The examiners found 96 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In eight instances, the company failed to use the correct discounts and/or surcharges.
  - b. In 81 instances, the company failed to use the correct symbol and/or model year.
  - c. In one instance, the company failed to use the correct territory.
  - d. In one instance, the company failed to use the correct driver classification factor.
  - e. In five instances, the company failed to use the correct base and/or final rates.

**Homeowner New Business Policies**

The Bureau reviewed 35 new business policy files. As a result of this review, the examiners found overcharges totaling \$6,346.69 and no undercharges. The net amount that should be refunded to insureds is \$6,346.69 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company misrepresented the effective time of coverage on the declarations page.
- (2) The examiners found four violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (3) The examiners found ten violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rate information. The company failed to file scheduled personal property rates.
- (4) The examiners found 13 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In four instances, the company failed to use the correct discounts and/or surcharges.
  - b. In four instances, the company failed to use the correct base and/or final rates.
  - c. In three instances, the company failed to use the correct deductible factors.
  - d. In two instances, the company failed to use the correct public protection classification.

**Homeowner Renewal Business Policies**

The Bureau reviewed 65 renewal business policy files. As a result of this review, the examiners found overcharges totaling \$7,979.50 and undercharges totaling \$1,754.60. The net amount that should be refunded to insureds is \$7,979.50 plus six percent (6%) simple interest.

- (1) The examiners found nine violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute. The company failed to include a list of the scheduled personal property with the renewal policy.
- (2) The examiners found 14 violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rate information. The company failed to file rates for condominium policies and/or scheduled personal property rates.
- (3) The examiners found 22 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In six instances, the company failed to use the correct discounts and/or surcharges.
  - b. In six instances, the company failed to use the correct base and/or final rates.
  - c. In two instances the company failed to use the correct deductible factors.
  - d. In eight instances, the company failed to use the correct public protection classification.

**TERMINATION REVIEW**

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes,

regulations, and policy provisions. The breakdown of these categories is described below.

### **Company-Initiated Cancellations - Automobile Policies**

#### NOTICE MAILED PRIOR TO THE 60<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed 12 automobile cancellations that were initiated by the companies where the companies mailed the notices prior to the 60th day of coverage in the initial policy period. As a result of this review, the examiners found no overcharges and undercharges totaling \$3.76.

- (1) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to provide proper notice of cancellation to the lienholder.
- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to send the cancellation notice to the address listed on the policy.

#### NOTICE MAILED AFTER THE 59<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed one automobile cancellation that was initiated by the companies where the companies mailed the notice on or after the 60<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the cancellation notice to the insured.

### **All Other Cancellations - Automobile Policies**

NONPAYMENT OF PREMIUM

The Bureau reviewed 15 automobile cancellations that were initiated by the companies for nonpayment of the policy premium. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found three violations of § 38.2-2208 B of the Code of Virginia. The company failed to provide proper notice of cancellation to the lienholder.
- (2) The examiners found two violations of § 38.2-2212 E of the Code of Virginia. The company failed to send the cancellation notice to the address listed on the policy.

REQUESTED BY THE INSURED

The Bureau reviewed 16 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. As a result of this review, the examiners found overcharges totaling \$11.47 and undercharges totaling \$352.75. The amount that should be refunded to insureds is \$11.47 plus six percent (6%) simple interest.

- (1) The examiners found three violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiners found 16 violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain the insured's written request to cancel his policy mid-term.

**Company-Initiated Nonrenewals - Automobile Policies**

The Bureau reviewed 11 automobile nonrenewals that were initiated by the companies.

The examiners found no violations in this area.

**Company-Initiated Cancellations - Homeowner Policies**NOTICE MAILED PRIOR TO THE 90<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed 25 homeowner cancellations that were initiated by the companies where the notices were mailed prior to the 90th day of coverage in the initial policy period. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company was unable to provide a copy of the declarations page applicable to the policy period in which the policy was terminated.
- (2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to retain a copy of the proof of mailing the cancellation notice to the insured.

NOTICE MAILED AFTER THE 89<sup>TH</sup> DAY OF COVERAGE

The Bureau reviewed seven homeowner cancellations that were initiated by the companies where the notices were mailed on or after the 90<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. As a result of this review, the examiners found overcharges totaling \$34.55 and no undercharges. The amount that should be refunded to insureds is \$34.55 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide the policy information requested by the Bureau.
- (2) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The

company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.

- (3) The examiners found three violations of § 38.2-2113 C of the Code of Virginia.
- a. In one instance, the company failed to provide proper notice of cancellation to the lienholder.
  - b. In one instance, the company failed to retain proof of mailing the cancellation notice to the insured.
  - c. In one instance, the company failed to retain proof of mailing the cancellation notice to the lienholder.
- (4) The examiners found five violations of § 38.2-2114 A of the Code of Virginia.
- a. In one instance, the company failed to send the insured written notice of cancellation of his owner-occupied dwelling policy.
  - b. In four instances, the company cancelled a policy insuring an owner-occupied dwelling after the 89<sup>th</sup> day of coverage for a reason not permitted by the statute.

### **All Other Cancellations - Homeowner Policies**

#### NONPAYMENT OF PREMIUM

The Bureau reviewed 35 homeowner cancellations that were initiated by the companies for nonpayment of the policy premium. As a result of this review, the examiners found overcharges totaling \$61.64 and undercharges totaling \$45.24. The net amount that should be refunded to insureds is \$61.64 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of an insurance policy. The company misrepresented the cancellation date of the

policy.

- (2) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the cancellation notice.
- (3) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (4) The examiners found 11 violations of § 38.2-2113 C of the Code of Virginia. The company failed to provide proper notice of cancellation to the lienholder.
- (5) The examiners found two violations of § 38.2-2114 A of the Code of Virginia.
  - a. In one instance, the company failed to send the cancellation notice to the name and/or address listed on the policy.
  - b. In one instance, the company failed to send the cancellation notice to the named insured.

#### REQUESTED BY THE INSURED

The Bureau reviewed 20 homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found four violations of § 38.2-2114 E of the Code of Virginia. The company failed to obtain a written request to cancel a policy insuring an owner-occupied dwelling.
- (2) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance written notice of cancellation from the insured.

**Company-Initiated Nonrenewals - Homeowner Policies**

The Bureau reviewed 24 homeowner nonrenewals that were initiated by the companies.

The examiners found two violations of § 38.2-2113 C of the Code of Virginia.

The company failed to obtain valid proof of mailing the cancellation notice to the lienholder.

**CLAIMS REVIEW****Private Passenger Automobile Claims**

The examiners reviewed 119 automobile claims for the period of June 1, 2012 through May 31, 2013. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$6,815.49 and underpayments totaling \$1,579.44. The net amount that should be paid to claimants is \$1,579.44 plus six percent (6%) simple interest.

- (1) The examiners found 29 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found two violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.
  - a. In one instance, the company failed to accurately inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage

was applicable to the loss.

- b. In one instance, the company failed to accurately inform an insured of his benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM) when the file indicated the coverage applied to the loss.
- (3) The examiners found three violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.
  - (4) The examiners found six violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.
  - (5) The examiners found ten violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
    - a. In three instances, the company failed to pay the insured's rental benefits, available under the UMPD coverage and/or UIM coverage.
    - b. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.
    - c. In five instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses Coverage.

These findings occurred with such frequency as to indicate a general business practice.

- (6) The examiners found four violations of 14 VAC 5-400-80 D. The company failed to provide the insured a copy of the estimate for the cost of repairs prepared by or on behalf of the company.
- (7) The examiners found seven violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.
  - a. In six instances, the company issued written communications that misrepresented pertinent facts of the claim.
  - b. In one instance, the company failed to properly convey to the insured and/or claimant the company's obligation concerning payment of the rental or loss of use claim.
- (8) The examiners found 11 violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.
- (10) The examiners found 20 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

These findings occurred with such frequency as to indicate a general business practice.

- (11) The examiners found six occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In three instances, the company failed to pay the claim in accordance with the terms of the policy.
  - b. In two instances, the company paid an insured more than he/she was entitled to receive under the terms of his/her policy.
  - c. In one instance, the company issued payments under the incorrect coverages.

#### Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found one violation of § 8.01-425.1 of the Code of Virginia. The company failed to provide the right of rescission when the claimant or insured was not represented by an attorney.

#### **Homeowners Claims**

The examiners reviewed 117 homeowner claims for the period of June 1, 2012 through May 31, 2013. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$1,087.57 and underpayments totaling \$3,865.01. The net amount that should be paid to claimants is \$3,865.01 plus six percent (6%) simple interest.

- (1) The examiners found 20 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were

pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found seven violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.
  - a. In two instances, the company failed to inform the insured of the benefits under the Additional Living Expense coverage of the policy.
  - b. In two instances, the company failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy.
  - c. In three instances, the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy.
- (3) The examiners found seven violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.
- (4) The examiners found ten violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
  - a. In two instances, the company failed to pay the entire claim under the insured's Dwelling Replacement Cost coverage.
  - b. In one instance, the company failed to pay the entire claim under the Additional Coverages coverage.

- c. In one instance, the company failed to pay the entire claim under the Additional Living Expense coverage.
- d. In five instances, the company failed to pay the entire claim under the insured's Personal Property Replacement Cost coverage.
- e. In one instance, the company failed to pay the entire claim under the insured's Personal Property coverage.

These findings occurred with such frequency as to indicate a general business practice.

- (5) The examiners found 54 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.

- a. In eight instances, the company failed to properly convey to the insured and/or claimant the company's obligation concerning payment of the claim.
- b. In 46 instances, the company failed to properly represent the replacement cost provisions of the policy.

These findings occurred with such frequency as to indicate a general business practice.

- (6) The examiners found three violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

- (7) The examiners found six violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.

- (8) The examiners found ten violations of § 38.2-510 A 10 of the Code of Virginia.

The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.
- (10) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In two instances, the company paid an insured more than he was entitled to receive under the terms of his policy.
  - b. In one instance, the company failed to pay the claim under the correct coverage.

#### Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found two violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

#### REVIEW OF FORMS

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for all of the lines of

business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

### **Automobile Policy Forms**

#### POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 80 forms that were used and/or available for use during the examination period to provide coverage on policies insuring risks located in Virginia.

- (1) The examiners found two violations of § 38.2-2214 of the Code of Virginia. The company used a rate classification statement other than the one currently approved for its use by the Bureau.
- (2) The examiners found 15 violations of § 38.2-2220 of the Code of Virginia. The company used a version of a standard automobile form that was not in the precise language filed and adopted for use by the Bureau.

#### POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

**Homeowners Policy Forms**POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 152 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found six violations of § 38.2-317 A of the Code of Virginia. The company used forms that had not been filed with the Bureau at least 30 days prior to use.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the companies' policy issuance process for the line examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

**Automobile Policies**

The companies provided three new business policies mailed on the following dates: June 20, and 21, 2013. In addition, the companies provided 11 renewal business policies mailed on the following dates: June 21, and 26, July 24, 25, and 26, and August 14, 2013.

NEW BUSINESS POLICIES

The examiners found two violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the Notice of Information Collection and Disclosure Practices as required by this statute.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

**Homeowner Policies**

The companies provided nine new business policies mailed on the following dates: June 6, 7, 12, 14, 17, 18, 19, and 20, 2013. In addition, the companies provided 21 renewal business policies mailed on the following dates: April 16, 17, 18, 19, 21, 25, and 29, 2013, and May 1, 2, 3, 7, and 9, 2013.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found five violations of § 38.2-2124 of the Code of Virginia. The company failed to provide the Ordinance and Law Coverage notice as required by the Code of Virginia.

REVIEW OF STATUTORY NOTICES

The examiners reviewed the companies' statutory notices used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy

mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the companies, but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

### **General Statutory Notices**

- (1) The examiners found three violations of § 38.2-604 B of the Code of Virginia. The companies failed to have available for use a long form Notice of Information Collection and Disclosure Practices.
- (2) The examiners found three violations of § 38.2-604.1 B of the Code of Virginia. The companies failed to have available for use the Notice of Financial Information Collection and Disclosure Practices.
- (3) The examiners found three violations of § 38.2-610 A of the Code of Virginia. The companies failed to have available for use an AUD notice.

### **Statutory Vehicle Notices**

- The examiners found six violations of § 38.2-2234 A of the Code of Virginia.
- a. In three instances, the companies failed to include all of the information required by the statute in its Credit Score Disclosure notice.
  - b. In three instances, the companies failed to include all of the information required by the statute in its Credit Score Adverse Action notice.

### **Statutory Property Notices**

The examiners found six violations of § 38.2-2126 A of the Code of Virginia.

- a. In three instances, the companies failed to include all of the information required by the statute in its Credit Score Disclosure notice.
- b. In three instances, the companies failed to include all of the information required by the statute in its Credit Score Adverse Action notice.

### **Other Notices**

The companies provided copies of three other notices that were used during the examination period.

The examiners found no violations in this area.

### **LICENSING AND APPOINTMENT REVIEW**

A review was made of new business private passenger automobile policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the company as required by Virginia insurance statutes. In addition, the agent or agency to which the company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

### **Agent**

- (1) The examiners found seven violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide a copy of the application.
- (2) The examiners found two violations of § 38.2-1822 of the Code of Virginia. The company permitted a person to act in the capacity of an agent who was not

licensed in the Commonwealth of Virginia.

### **Agency**

The examiners found nine violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agency within 30 days of the date of the application.

### **REVIEW OF THE COMPLAINT-HANDLING PROCESS**

A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found no violations in this area.

### **REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES**

The Bureau requested a copy of the companies' information security program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The companies provided their information security procedures.

## PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. Unless otherwise noted, a ten percent (10%) error criterion was applied to all operations of the companies, with the exception of claims handling. The threshold applied to claims handling was seven percent (7%). Any error ratio above these thresholds indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

### General

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty Insurance Company shall:

Provide a Corrective Action Plan (CAP) with their response to the Report.

### Rating and Underwriting Review

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited During the Examination." By returning the completed file to the Bureau, the

companies acknowledge they have refunded or credited the overcharges listed in the file.

- (4) Specify accurate information in the policy by listing all forms applicable to the policy on the declarations page. .
- (5) Properly represent the benefits, coverage, advantages and conditions of the policy by displaying the correct policy period on the declarations page.
- (6) Maintain a copy of all new business applications.
- (7) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, territories, symbols, model year, deductible factors, public protection classifications, base and/or final rates, filed fees and premium determination rules.
- (8) Update the insured's credit information at least once in a three year period or when requested by the insured.
- (9) File all rates and supplementary rate information with particular attention to the filing of scheduled personal property rates.

### **Termination Review**

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau, the enclosed file titled "Termination

Overcharges Cited During the Examination.” By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.

- (4) Calculate return premium according to the filed rules and policy provisions.
- (5) Provide proper notice of cancellation to the insured and/or lienholder when canceling a policy.
- (6) Obtain and retain valid proof of mailing cancellation and non-renewal notices to the insured and lienholder.
- (7) Cancel a policy insuring an owner-occupied dwelling when the notice is mailed after the 89th day of coverage only for those reasons permitted by § 38.2-2114 of the Code of Virginia.
- (8) Send the cancellation notice to the address listed on the policy.
- (9) Obtain advanced written notice when the insured requests cancellation of the policy.

### **Claims Review**

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau the enclosed file titled “Claims Underpayments Cited during the Examination.” By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments

listed in the file.

- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
- (5) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
- (6) Properly represent pertinent facts or insurance provisions relating to the relating to the replacement provisions of the policy.
- (7) Adopt and implement standards for prompt investigation of claims.
- (8) Include a correct statement of coverage under which payments are made with all claim payments to insureds and claimants.

#### **Forms Review**

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty Insurance Company shall:

- (1) File all homeowner forms with the Bureau at least 30 days prior to their use in Virginia.
- (2) Use the rate classification statement filed and approved by the Bureau.
- (3) Use the precise language of the standard automobile forms adopted by the Bureau.

#### **Review of Policy Issuance Process**

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty Insurance Company shall:

- (1) Provide the Notice of Information Collection and Disclosure Practices with new

business policies as required.

- (2) Provide the Ordinance and Law Coverage notice with all new and renewal policies as required by the Code of Virginia.

### **Review of Statutory Notices**

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty Insurance Company shall:

- (1) Develop the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- (2) Develop the AUD notice to comply with § 38.2-610 A of the Code of Virginia.
- (3) Develop the AUD notice to comply with § 38.2-2114 C of the Code of Virginia.
- (4) Amend the Insurance Credit Score Disclosure notice to comply with §§ 38.2-2126 A 1 and 38.2-2234 A 1 of the Code of Virginia.
- (5) Amend the Insurance Credit Score Adverse Action notice to comply with §§ 38.2-2126 A 2 and 38.2-2234 A 2 of the Code of Virginia.

**Licensing and Appointment Review**

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty Insurance Company shall:

- (1) Appoint agents and agencies within 30 days of the application.
- (2) Permit only licensed agents to represent the company in the Commonwealth of Virginia.

### **PART THREE – RECOMMENDATIONS**

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer:

#### **RECOMMENDATIONS**

We recommend the companies take the following actions:

#### **Rating and Underwriting**

- The companies should update their filed homeowner manual to reflect the companies' current practices.

#### **Termination**

- The companies should accurately represent the effective date of cancellation.
- The companies should record and report their cancellations accurately. The companies should only report cancellations that took place during the policy period that is being reviewed.
- The companies should amend the wording on their Important Notices to advise the insured they may be eligible for fire insurance through the Virginia Property Insurance Association.
- The companies should state the effective date of suspension on the Suspension of Insurance endorsement or on the amended declarations page.
- The companies should comply with the provisions of the insurance policy by obtaining advance written notice of cancellation from the insured.

#### **Claims**

- Make all claim denials in writing and keep a copy in the claim file.
- Provide copies of vehicle repair estimates prepared by or on behalf of the

company to insureds and claimants.

- Make payments to the insured for the amount he/she is entitled to receive under the terms of the policy.
- Provide the right of rescission when the claimant or insured is not represented by an attorney.
- Include the insurance fraud statement on claim forms required by company as a condition of payment.

### Forms

- The companies should use bold type for the word "Bodily" in the Virginia Allstate Indemnity Company Condominium form on page 2, under General Definitions Used In This Policy.
- The companies should update their Basic Homeowners Policy based upon the recommendation review sheet received during the examination process.
- The companies should update their Personal Auto Policy at the top of page 2 to allow entry of the company name depending upon the company issuing the policy.
- The companies should remove the word "temporary" from Page 2, II., Option 2, of their Transportation Expenses Coverage- Virginia Endorsement.

### Statutory Notices

- The companies should include on their Important Information Regarding Your Insurance notice the Commission's TDD number (804-371-9206); and the full zip code for both the companies and the Virginia State Corporation Commission.
- The companies should not use the same notice to satisfy the requirements § 38.2-604 B and § 38.2-604 C of the Code of Virginia.

**SUMMARY OF PREVIOUS EXAMINATION FINDINGS**

The Bureau conducted four prior market conduct examinations of Allstate Insurance Company and Allstate Indemnity Company, and one prior examination of Allstate Fire and Casualty Insurance Company and one prior examination of Allstate Property and Casualty Company.

During the private passenger auto, motorcycle, homeowner, dwelling fire, commercial property and liability, commercial auto, landlord package, assigned risk auto examination of Allstate Indemnity Company as of June 30, 1995, the company violated and was ordered to cease and desist from any conduct which constituted a violation of §§ 38.2-231, 38.2-508, 38.2-510 A 1, 38.2-510 A 6, 38.2-510 A 10, 38.2-1822, 38.2-1833, 38.2-1904, 38.2-1905, 38.2-1906, 38.2-2014, 38.2-2113, 38.2-2114, 38.2-2119, 38.2-2202, 38.2-2206, 38.2-2208, 38.2-2212, 38.2-2214, and 38.2 2220 of the Code of Virginia, as well as 14 VAC 5-400-30 and 14 VAC 5-400-40 A , and 14 VAC 5-400 70 A.

During the private passenger auto examination of Allstate Insurance Company as of December 31, 1998, the company violated and was ordered to cease and desist from any conduct which constituted a violation of § 38.2-510 A 4 and § 38.2-510 A 6 of the Code of Virginia.

During the private passenger automobile and homeowner examination of Allstate Insurance Company and Allstate Indemnity Company as of March 31, 2001, Allstate Insurance Company violated and was ordered to cease and desist from any conduct which constituted a violation of §§ 38.2-510 A 1, 38.2-510 A 10, 38.2-610, 38.2-1318, 38.2-1822, 38.2-1905 A, 38.2-1906 D, 38.2-2113, 38.2-2114, 38.2-2118, 38.2-2124, 38.2-2208, 38.2-2212, 38.2-2220, and 38.2-2223 of the Code of Virginia, as well as 14 VAC 5-400-30 and 14 VAC 5-400-70 D. Allstate Indemnity Company violated and was ordered to cease and desist from any conduct which constituted a violation of §§ 38.2-304, 38.2-510 A 1, 38.2-510 A 10, 38.2-610, 38.2-1318, 38.2-1812, 38.2-1822, 38.2-

1833, 38.2-1906 D, 38.2-2113, 38.2-2114, 38.2-2118, 38.2-2124, 38.2-2212, 38.2-2220, and 38.2-2223 of the Code of Virginia, as well as 14 VAC 5-400-30 and 14 VAC 5-400-70 D.

During the homeowner rating and termination examination of Allstate Insurance Company and Allstate Indemnity Company as of March 31, 2001, the companies violated and were ordered to cease and desist from any conduct which constituted a violation of § 38.2-1906 D of the Code of Virginia.

During the private passenger auto and motorcycle examination of Allstate Insurance Company, Allstate Indemnity Company, Allstate Fire and Casualty Insurance Company, and Allstate Property and Casualty Insurance Company as of June 30, 2007, the companies violated §§ 38.2-305, 38.2-502, 38.2-604, 38.2-610, 38.2-1318, 38.2-1905, 38.2-1906 D, 38.2-2210, 38.2-2220, 38.2-2223 and 38.2-2234 of the Code of Virginia.

**ACKNOWLEDGEMENT**

The courteous cooperation extended by the officers and employees of the companies during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in cursive script that reads "Karen S. Gerber".

Karen S. Gerber  
Senior Insurance Market Examiner

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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June 3, 2014

**VIA UPS 2<sup>nd</sup> DAY DELIVERY**

Tom Mathes  
State Manager, Virginia  
Capital Region  
Allstate Insurance Company  
15000 Conference Center Drive, Suite 400  
Chantilly, VA 20151

RE: Market Conduct Examination  
Allstate Insurance Company, #19232  
Allstate Indemnity Company, #19240  
Allstate Property and Casualty Insurance Company, #17230  
Examination Period: June 1, 2012 through May 31, 2013

Dear Mr. Mathes:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced company for the period of June 1, 2012 through May 31, 2013. The preliminary examination report (Report) has been drafted for the companies review.

Enclosed with this letter is a copy of the preliminary examination report and copies of review sheets that have been withdrawn or revised since May 29, 2014. Also enclosed are several reports that will provide you with the specific file references for the violations listed in the Report.

Since there appear to have been a number of violations of Virginia insurance laws on the part of the companies, I would urge you to closely review the report. Please provide a written response. When the companies responds, please use the same format (headings and numbering) as found in the Report. If not, the response will be returned to the companies to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report. The companies do not need to respond to any particular item with which they agree. If the companies disagree with an item or wishes to further comment on an item, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the companies provide written documentation to support their position.

Secondly, the companies should provide a corrective action plan that addresses all of the issues identified in the examination, again using the same headings and numberings as are used in the Report.

Thirdly, if the companies have comments they wish to make regarding Part Three of the Report, please use the same headings and numbering for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the companies should outline the actions they are taking to prevent those issues from becoming a business practice.

Finally, we have enclosed an Excel file that the companies must complete and return to the Bureau with the companies' response. This file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The company's response and the spreadsheet mentioned above must be returned to the Bureau by July 7, 2014.

After the Bureau has received and reviewed the companies' response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by July 7, 2014.

Sincerely,

Joy Morton  
Supervisor  
Market Conduct Section  
Property & Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)



**Allstate**<sup>™</sup>  
You're in good hands.

July 3, 2014

Joy M. Morton  
Supervisor, Market Conduct Section  
Property and Casualty Division  
State Corporation Commission  
Bureau of Insurance



**RE: Market Conduct Examination**  
**Allstate Insurance Company #19232**  
**Allstate Indemnity Company #19240**  
**Allstate Property and Casualty Insurance Company #17230**  
**Examination Period: June 1, 2012 through May 31, 2013**

Dear Ms. Morton:

Attached, in separate files, is Allstate Insurance Company's response to the Market Conduct Exam performed for the above-mentioned companies.

As instructed, the attached response follows the same format and numbering for each section. The company has provided additional files that supplement the report to include additional supporting documentation for areas the Company seeks additional consideration on. Additionally, we have created a separate file that includes the details of our corrective action plan for Rating and Underwriting. We have also enclosed the spreadsheet with the refunds and claim overpayments that have been processed. Please note that the Company did not process the payments if the items were still being contested.

Joy, the Company would like to thank you and your team for the productive, efficient, and professional attitude throughout the exam. We appreciate the opportunity to provide documentation that supports our company's position and look forward to the continued dialogue as we conclude the examination process.

If there are items in the report you or your team have questions about or need additional information on, please feel free to contact me.

Sincerely,

Tom Mathes  
State Manager  
Allstate Insurance Company

July 3, 2014

**Virginia Market Conduct Examination**

Allstate Insurance Company, #19232

Allstate Indemnity Company, #19240

Allstate Property and Casualty Company, #17230

Examination Period: June 1, 2012 through May 31, 2013

Allstate Insurance Company Response to the Bureau of Insurance preliminary report:

**Part One – The Examiners' Observations**

**Rating and Underwriting Policies**

**RATING AND UNDERWRITING REVIEW**

**Automobile New Business Policies**

The Bureau reviewed 27 new business policy files. As a result of this review, the examiners found overcharges totaling \$1,030.56 and undercharges totaling \$65.09. The net amount that should be refunded to insureds is \$1,030.56 plus six percent (6%) simple interest.

- (1) The examiners found five violations of § 38.2-1318 of the Code of Virginia. The Company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.

*The company agrees with the examiners observation.*

- (2) The examiners found two violations of § 38.2-1905 A of the Code of Virginia.
  - a. In one instance, the company failed to notify the insured in writing that his policy had been surcharged for an at-fault accident.

*The company agrees with the examiners observation*

- b. In one instance, the company failed to notify the insured in writing of the specific accident date being used to surcharge the policy.

*The company agrees with the examiners observation*

- (3) The examiners found 43 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In three instances, the company failed to use the correct discounts and/or

surcharges.

***The company agrees with the examiners observation***

- b. In 38 instances, the company failed to use the correct symbol and/or model year.

***The company respectfully disagrees with the examiners observation. The company has provided several sources of information that confirm that the rates charged for specific Price Group Symbol class factors are consistent with our current filings. The company acknowledges that the specific VIN is not included in our rate pages, however, the internal system and excel sheet excerpts from our countrywide VIN tables show consistent application of the PGS class and rate factors. For Model year rating the companies Rule definition provides the basis for how the rate factors shown in our rating pages shall be applied. The company acknowledges that there are rate factors shown for model years that are over 10 years old, however our rating rule specifically states which rate factors shall be applied for these vehicle years. The company agrees to update our rating pages to remove older years that are no longer applicable to add clarity. That said the current rating rule in combination of our rate pages, shows clear intent on which factors should be applied when rating a policy. Our rating of policies that were reviewed during the examination illustrated consistent application of the rating rule and corresponding model year rate pages.***

- c. In one instance, the company failed to use the correct territory.

***The company agrees with the examiners position***

- d. In one instance, the company failed to use the correct base and/or final rates.

***The company agrees with the examiners position***

**Automobile Renewal Business Policies**

The Bureau reviewed 59 renewal business policy files. As a result of this review, The examiners found overcharges totaling \$2,394.77 and undercharges totaling \$330.57. The net amount that should be refunded to insured's is \$2,394.77 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The Company failed to specify accurate information in the policy. The company failed to list all forms applicable to the policy on the declarations page.

*The company agrees with the examiners observation*

- (2) The examiners found 96 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In eight instances, the company failed to use the correct discounts and/or surcharges.

*The company agrees with the examiners observations*

- b. In 81 instances, the company failed to use the correct symbol and/or model year.

*The company respectfully disagrees with the examiners observation. The company has provided several sources of information that confirm that the rates charged for specific Price Group Symbol class factors are consistent with our current filings. The company acknowledges that the specific VIN is not included in our rate pages, however, the internal system and excel sheet excerpts from our countrywide VIN tables show consistent application of the PGS class and rate factors. For Model year rating the companies Rule definition provides the basis for how the rate factors shown in our rating pages shall be applied. The company acknowledges that there are rate factors shown for model years that are over 10 years old, however our rating rule specifically states which rate factors shall be applied for these vehicle years. The company agrees to update our rating pages to remove older years that are no longer applicable to add clarity. That said the current rating rule in combination of our rate pages, shows clear intent on which factors should be applied when rating a policy. Our rating of policies that were reviewed during the examination illustrated consistent application of the rating rule and corresponding model year rate pages.*

- c. In one instance, the company failed to use the correct territory.

*The company agrees with the examiners observations*

- d. In one instance, the company failed to use the correct driver classification factor.

*The company agrees with the examiners observations*

- e. In five instances, the company failed to use the correct base and/or final

rates.

*The company agrees with the examiners observations*

**Homeowner New Business Policies**

The Bureau reviewed 35 new business policy files. As a result of this review, the examiners found overcharges totaling \$6,329.23 and undercharges totaling \$9.01. The net amount that should be refunded to insured's is \$6,329.23 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute. The company failed to include a list of the scheduled personal property with the new policy.

***The company respectfully disagrees with this violation. The statute noted above requires an insurer shall specify the "subject" of insurance in the contract. Our insurance contracts do, in fact, provide the subject of insurance to include the specific class of scheduled personal property that is insured, the amount of coverage being provided, and the premium that is being charged. The company feels that this level of detail meets the requirements set forth in 38.2.305. Additionally, there are no specific requirements noted in 38.2.305 that state each scheduled item to be specifically listed on the declaration page.***

The examiners found two violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company misrepresented the effective time of coverage on the declarations page.

***The company respectfully disagrees. In the binder provision of the application we note the specific date and time that the binder for insurance was taken. The new business declaration page uses the next day showing***

**12:01 AM as the being period for the policy period. This statement and consistent use of 12:01 AM is in accordance with 38.2104, which required the insurer to use consistent wording and delivery of insurance contracts; 38.2104**

A. Each policy shall provide space for listing amounts of insurance, rates, and premiums for the coverage's provided in the policy and endorsements attached to the policy, and shall show the location of the agency and the name and location of the insurer issuing the policy. Except as provided in § 38.2-2107, each policy shall contain the following insuring agreement:

In consideration of the provisions and stipulations herein or added hereto and

of the premium above specified, this Company for the term of .....

..... At 12:01 A.M. .... At 12:01 A.M.

.....

from ..... (Standard Time) to ..... (Standard

Time) at location of property involved, to an amount not exceeding the

amount(s) above specified, does insure .....

***As noted in our previous correspondence, had a claim occurred after the date and time the binder had been issued, the company would have provided coverage for the loss. The company feels that both the binder provision section with the specific date and time, as well as the use of the consistent language in our policy declarations are in accordance with the requirements of all applicable statutes.***

- (2) The examiners found four violations of § 38.2-1318 of the Code of Virginia .The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.

***The company agrees with the examiners observations***

- (3) The examiners found ten violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rate information. The company failed to file scheduled personal property rates.

*The company agrees with the examiners observations and has taken steps to address this issue. Updated Scheduled Personal Property rates will be filed for each company. Note the same rate factors that are currently in use for Allstate Insurance Company will be filed with the other companies. This is consistent with our intended rating of the policies during the examination. Since it has been the company's intent to apply the Allstate Insurance Company rates for all Schedule Personal Property business, the company respectfully disagrees with the requirement of refunding the premiums charged for this observation. As noted in our corrective action plan, the updated filings for each company will be made on or before September 1, 2014.*

- (4) The examiners found 19 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In four instances, the company failed to use the correct discounts and/or surcharges.

***The company agrees with the examiners observations***

- b. In four instances, the company failed to use the correct base and/or final Rates.

***The company agrees with the examiners observations***

- c. In three instances, the company failed to use the correct deductible factors.

***The company agrees with the examiners observations***

- d. In seven instances, the company failed to use the correct public protection classification.

*The company respectfully disagrees with 5 out of the 7 instances. As noted in previous responses and consistent with our rating rules; the company obtains its fire protection information directly from ISO location. In instances where there is a split town class, ISO location is able to determine whether an appropriate water source exists for the location to be insured. The company has attached the output from the ISO location database for RHO008, RHO009, RHO056, RHO057, and RHO059 which illustrates that a hydrant as the applicable water supply type.*

- e. In one instance, the company failed to rate the policy based upon credit information obtained

*The company requests re-consideration. In our appendix document, the specific credit information used for RHO053.*

### Homeowner Renewal Business

The Bureau reviewed 65 renewal business policy files. As a result of this review, The examiners found overcharges totaling \$9,845.20 and undercharges totaling \$1,917.63. The net amount that should be refunded to insureds is \$9,845.20 plus six Percent (6%) simple interest.

- (1) The examiners found nine violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information required by this statute. The company failed to include a list of the scheduled personal property with the renewal policy.

*The company respectfully disagrees with this violation. The statute noted above requires an insurer shall specify the "subject" of insurance in the contract. Our insurance contracts do, in fact, provide the subject*

*of insurance to include the specific class of scheduled personal property that is insured, the amount of coverage being provided, and the premium that is being charged. The company feels that this level of detail meets the requirements set forth in 38.2.305. Additionally, there are no specific requirements noted in 38.2.305 that state each scheduled item to be specifically listed on the declaration page.*

The examiners found 14 violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rate information. The company failed to file rates for condominium policies and/or scheduled personal property rates.

*The company agrees with the examiners observations and has taken steps to address our Scheduled Personal Property rate pages. Updated Scheduled Personal Property rates will be filed for each company. Note the same rate factors that are currently in use for Allstate Insurance Company will be filed with the other companies. This is consistent with our intended rating of the policies during the examination. Since it has been the company's intent to apply the Allstate Insurance Company rates for all Schedule Personal Property business, the company respectfully disagrees with the requirement of refunding the premiums charged for this observation. As noted in our corrective action plan, the updated filings for each company will be made on or before September 1, 2014. Updated rate pages for AIC condominium have already been submitted to the Bureau under SERF tracking number, ALSE-129499110*

The examiners found 28 violations of § 38.2-1906 D of the Code of Virginia. The

Company failed to use the rules and/or rates on file with the Bureau.

- a. In six instances, the company failed to use the correct discounts and/or surcharges.

*The company agrees with the examiners observation*

- b. In six instances, the company failed to use the correct base and/or final Rates.

*The company agrees with the examiners observation*

- c. In two instances, the company failed to use the correct deductible factors.

*The company agrees with the examiners observation*

- d. In 11 instances, the company failed to use the correct public protection Classification.

*The company respectfully disagrees with 5 out of the 11 instances. As noted in previous responses and consistent with our rating rules; the company obtains its fire protection information directly from ISO location. In instances where there is a split town class, ISO location is able to determine whether an appropriate water source exists for the location to be insured. The company has attached the output from the ISO location database for RHO034, RHO042, RHO081, RHO098, and RHO099 which illustrates that a hydrant as the applicable water supply type.*

- e. In one instance, the company failed to follow its filed rule by not including the insured's condominium unit number in the policy information.

*The company agrees with the examiners observations*

- f. In two instances, the company failed to rate the policy based upon credit Information obtained.

*The company requests re-consideration. In our appendix document, the specific credit information used for RHO021 and RHO024 has been attached for the examiners review.*

### Termination Review

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described

below.

### **Company-Initiated Cancellations - Automobile Policies**

#### **NOTICE MAILED PRIOR TO THE 60<sup>1</sup> DAY OF COVERAGE**

The Bureau reviewed 11 automobile cancellations that were initiated by the companies where the companies mailed the notices prior to the 60th day of coverage in the initial policy period. As a result of this review, the examiners found no overcharges and undercharges totaling \$3.76.

- (1) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.

***The company agrees with the examiners observation***

- (2) The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The Company failed to provide proper notice of cancellation to the lienholder.

***The company agrees with the examiners observation***

- (3) The examiners found one occurrence where the company failed to comply with The provisions of the insurance policy. The company failed to send the Cancellation notice to the address listed on the policy.

***The company agrees with the examiners observation***

#### **Notice Mailed After the 59<sup>th</sup> Day of Coverage**

The Bureau reviewed on automobile cancellation that was initiated by the companies where the companies mailed the notice on or after the 60<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found one violation of 38.22212 E of the Code of Virginia. The company failed to send the cancellation notice to the insured.

***The company agrees with the examiners observation***

#### **All Other Cancellations – Automobile Policies**

The Bureau reviewed 15 automobile cancellations that were initiated by the companies for nonpayment of the policy premium. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found six violations of § 38.2-2208 B of the Code of Virginia. The company failed to provide proper notice of cancellation to the lienholder.

*The company requests re-consideration, The Company uses an electronic delivery method for sharing cancellation and reinstatement of coverage to Lienholders. We submit standardized EDI data to the directly to the lienholder. We have attached in our appendix section the electronic delivery of information to the lienholder for 5 out of the 6 violations noted above.*

- (2) The examiners found two violations of § 38.2-2212 E of the Code of Virginia. The company failed to send the cancellation notice to the address listed on the Policy

*The company agrees with the examiners observation*

#### **REQUESTED BY THE INSURED**

The Bureau reviewed 16 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. As a result of this review, the examiners found overcharges totaling \$11.47 and undercharges totaling \$352.75. The amount that should be refunded to insured's is \$11.47 plus six percent (6%) simple interest.

- (1) The examiners found three violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.

*The company agrees with the examiners observation*

- (3) The examiners found 16 violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain the insured's written request to cancel his policy mid-term.

*The company agrees with the examiners observation and has a compliance project opened to file updated policy language that will broaden our cancellation provisions to allow for verbal notification.*

#### **Company-Initiated Non-renewals – Automobile Policies**

The Bureau reviewed 11 automobile nonrenewals that were initiated by the companies.

The examiners found no violations in this area.

#### **Company-Initiated Cancellations - Homeowner Policies**

##### **NOTICE MAILED PRIOR TO THE 90<sup>th</sup> DAY OF COVERAGE**

The Bureau reviewed 25 homeowner cancellations that were initiated by the companies where the companies mailed the notices prior to the 90th day of coverage in the initial policy period. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The Company failed to provide convenient access to the files, documents, and records relating to the examination. The company was unable to provide a copy of the declarations page applicable to the policy period in which the policy was terminated.

##### ***The company agrees with the Examiners observations***

- (2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The Company failed to retain a copy of the proof of mailing the cancellation notice to the insured.

***The company requests re-consideration and has attached a copy of the Lienholder proof of mailing for the examiners review.***

##### **NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE**

The Bureau reviewed seven homeowner cancellations that were initiated by the Companies where the companies mailed the notice on or after the 90 day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. As a result of this review, the examiners found overcharges totaling \$34.55 and no undercharges. The amount that should be refunded to insured's is \$34.55 plus six percent simple interest.

- (1) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide the policy information requested by the Bureau.

***The company agrees with the Examiners observations***

- (2) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.

***The company agrees with the Examiners observations***

- (3) The examiners found three violations of § 38.2-2113 C of the Code of Virginia.
  - a. In one instance, the company failed to provide proper notice of Cancellation to the lienholder.

***The company agrees with the examiners observation***

- b. In one instance, the company failed to retain proof of mailing the cancellation notice to the insured.

***The company agrees with the examiners observation***

- c. In one instance, the company failed to retain proof of mailing the Cancellation notice to the lienholder.

***The company agrees with the examiners observation***

- (4) The examiners found five violations of § 38.2-2114 A of the Code of

Virginia.

- a. In one instance, the company failed to send the insured written notice of Cancellation of his owner-occupied dwelling policy.

***The company agrees with the examiners observation***

- b. In four instances, the company cancelled a policy insuring an owner-occupied dwelling after the 89 day of coverage for a reason not permitted by the statute.

***The company agrees with the examiners observation***

**All Other Cancellations – Homeowner Policies**

The Bureau reviewed 35 homeowner cancellations that were initiated by the companies for nonpayment of the policy premium. As a result of this review, the examiners found overcharges totaling \$61.14 and undercharges totaling \$45.24. The net amount that should be refunded to insured's is \$61.14 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of an Insurance policy. The company misrepresented the cancellation date of the policy.

***The company agrees with the examiners observation***

- (2) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and Records relating to the examination. The company failed to provide a copy of the cancellation notice.

***The company agrees with the examiners observation***

- (3) The examiners found four violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium

correctly.

***The company agrees with the examiners observation***

- (4) The examiners found 11 violations of § 38.2-2113 C of the Code of Virginia. The company failed to provide proper notice of cancellation to the lienholder.

***The company agrees with the examiners observation***

- (5) The examiners found two violations of § 38.2-2114 A of the Code of Virginia.
- a. In one instance, the company failed to send the cancellation notice to the name and/or address listed on the policy.

***The company agrees with the examiners observation***

- b. In one instance, the company failed to send the cancellation notice to the named insured.

***The company agrees with the examiners observation***

**REQUESTED BY THE INSURED**

The Bureau reviewed 20 homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found four violations of § 38.2-2114 E of the Code of Virginia. The company failed to obtain a written request to cancel a insuring an owner occupied dwelling.

***The company agrees with the examiners observation***

- (2) The examiners found three occurrences where the company failed to comply with the

provisions of the insurance policy. The company failed to obtain advance written notice of cancellation from the insured.

***The company agrees with the examiners observation***

Company-Initiated Non-renewals – Homeowner Policies

The Bureau reviewed 24 homeowner non renewals that were initiated by the companies.

The examiners found two violations of § 38.2-2113 C of the Code of Virginia.

The company failed to obtain valid proof of mailing the cancellation notice to the Lienholder.

***The company agrees with the examiners observation***

CLAIMS REVIEW

**Private Passenger Automobile Claims**

The examiners reviewed 118 automobile claims for the period of June 1, 2012 through May 31, 2013. The findings below appear to be contrary to the standards set forth by Virginia Insurance statutes and regulations. As a result of this review, the examiners found overpayments totalling \$6,815.49 and underpayments totalling \$1,579.44. The net amount that should be paid to claimants is \$1579.44 plus six percent (6%) simple interest.

- (1) The examiners found 38 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

***The Company understands the Bureau's position on 15 violations and respectfully disagrees with 23 of the above alleged violations. The Company***

*maintains that the files were sufficiently documented to reconstruct events and dates pertinent to the claim.*

- 1) *Review sheets 488324543, 220867175, 2053402068, 1707287551, 1397588150, 1942507481, 731940181, 2051537301, 323733901, 2147139995, 990561275 involve alleged violations that relate to the sending of the Colossus disclosure letter on claims when, given the circumstances of the claim, it may not have been necessary. The Company submits that 14VAC5-400-30 relates to file and record documentation and states as follows:*

*The insurer's claim files shall be subject to examination by the Commission or by its duly appointed designees. Such files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed.*

*The Company respectfully disagrees with this finding as the sending of the Colossus disclosure letter does not prevent the Bureau from reconstructing pertinent events and dates of each claim. The disclosure letter is sent as part of the agreed upon terms of the Multi-State Market Conduct Regulatory Agreement. Virginia was a "Participating Regulator" to the Multi-State Market Conduct Regulatory Agreement. The Agreement requires the following:*

*Disclosure. Allstate will provide notice to claimants that the Colossus software program may be used in the adjustment of their bodily injury claims in substantially the form set forth in Exhibit C to this Agreement.*

*The disclosure process is by its nature very broad -- the disclosure is sent to any claimant where Colossus "may be used". Allstate provides this disclosure at the beginning of the claim process to all potential bodily injury claimants. Hence, if bodily injury coverage is opened, the system automatically generates the disclosure letter to the claimant, regardless of whether additional investigation later determines that a claim is never made or if the claim is denied. If the coverage is opened, the system generates the notice. The notice does not misrepresent facts or policy provisions -- it simply provides notice of what may happen in the course of a claim.*

*We implemented a mechanized process to help ensure that all claimants receive notice if there is a potential for Allstate to use Colossus as part of the evaluation process. We believed that a blanket approach, not subject to the discretion of each adjuster, providing the disclosure letter at the outset of the claim, would help ensure that all claimants uniformly receive the notice, even if Colossus may not ultimately be used in a particular claim. Hence, Allstate triggers the sending of the Colossus disclosure letters by the opening of bodily injury and uninsured/underinsured coverages. The disclosure letter is specifically tailored to notify claimants that Colossus is "one of the tools" that "may" be used in evaluating the claim. The letter is general enough to fit almost any situation when coverage is opened; the letter does not misrepresent pertinent facts or policy provisions. The*

*letter does not state that there is coverage for the claim, that Allstate will make any payment, nor does it state that Colossus will in fact be used to evaluate the claim.*

- 2) The Company respectfully disagrees with the alleged finding for review sheet 1960188939. The file notes and correspondence can be utilized to reconstruct the events of the claim. The letter memorialized the conversation which occurred in the matter. Including an additional entry in the file note, when the event and date is already documented via the sending of the letter which is retained as part of the claim file, is redundant and unnecessary in this instance.*
- 3) The Company respectfully disagree with the alleged finding for review sheet 1742618081. File note dated 7/30/2012 titled "Rec'd Call From Shareen B." documents that the claimants were represented by the law offices of \*\*\*\*\* and \*\*\*\*\* Chartered. The Company immediately responded by acknowledging the representation in writing on 8/1/2012.*
- 4) The Company respectfully disagrees with the alleged findings for review sheets 265611081 and 1759755911. In both instances releases were sent but never returned. It is the Company's position that the files are complete as to all notes and work papers so that events and dates can be reconstructed.*
- 5) The Company respectfully disagrees with the alleged findings for review sheet 934374621. The adjuster file note of 2/27/13 indicates that AH was a guest passenger in another auto that did not have insurance coverage. The file note further reflects that AH is a resident relative of the Insured household and accordingly, would be afforded UMBI coverage.*
- 6) The Company respectfully disagree with the alleged findings for review sheet 848818643. The recorded statement of the insured attached to the file does accurately memorialize the facts of the loss. In addition the insured file note dated 1/29/13, titled insd r/s does accurately memorialize the conversation as it read "...insd was on prince edward at light with green ball going straight. clmt coming off william st and ran red light.". Further, the file note of 1/31/13 memorializes our liability position related to this matter which clearly outlines the claimant was at fault for running the red light. In regards to the email, the file note dated 2/6/13 accurately memorializes the content and facts of the email.*
- 7) The Company respectfully disagrees with the alleged findings for review sheet 1819450859. The system lists the Appearance Allowance as a reduction off the applicable deductible. Since the deductible amount was \$0, it showed as - \$25. The very next line shows that the \$25 was added to the final estimate amount, not deducted. The estimate properly documented that it was a \$25 allowance for a crack in the bug guard. The manner in which the allowance was documented was clear enough for the examiner to reconstruct pertinent events and dates of events. Further, the figures within the estimate were accurate and there is nothing to suggest the insured was in any way confused as to the amount paid or what the payment was based upon. In regards to the cancelled check, since the insured advised us on 12/16/12 that she was returning the check, it was*

*reasonable to cancel same check. The Company's actions were consistent with the information and direction provided by the insured. The Company has no affirmative duty to include an insured's personal out of pocket expenses in its demand for subrogation. Pursuant to 14 VAC 5-400-80( C), the Company is required only to include an insured's deductible upon request. As a best practice, the Company will include the insured's deductible unless directed otherwise. The insured is free to pursue an action against the at fault party for any other compensable element of damage*

8) *The Company respectfully disagrees with the alleged findings for review sheets 217317283 and 41068757. In both claims the insureds had already received a check for the cost of repairs as determined at the Company's drive-in location. Both estimates at issue were for supplements requested by the body shops once the vehicles were brought to the body shop for the repairs. The "Customer Pay" amount reflected on the supplemental estimates represent the amount previously paid to the insured in addition to the deductible amount. The Company submits the Customer Pay amounts are accurate as the insureds would be expected to pay their deductible amount as well as apply the money previously provided to them for repairs to pay for the actual repairs.*

9) *The Company respectfully disagrees with the alleged findings for review sheet 1599785533. The rental bill is available in ARMS and included in attachments. [CLAIM ATTACHMENT 1]*

*The Company further contends that this bill is a true representation of the electronic invoice that appears in the Claim History on 11/9/2012.*

10) *The Company respectfully disagrees with the alleged findings for review sheet 1837242625. The referenced Total loss vs Repair report is incomplete. The report should have simply mirrored the notes of 1/4/13. Clearly since the total loss of the vehicle was \$6,546.79 and the repair was \$11,266.27 - the repair being almost 172% of the ACV - it was cost effective to total the vehicle.*

11) *The Company respectfully disagrees with the alleged findings for review sheet 750192969. The Company submits that the repair estimate includes the "teardown fees" referenced in this claim.. The "teardown fees" are not shown as a separate line item in the estimate. Rather, the fees are included and represented in the form of labor hours which represent the amount of time to "teardown" the vehicle so as to prepare the estimate. This labor amount is and was paid by the Company as part of the repair process, which was reflected in the estimate, and was not denied. Had the owner decided on their own to not repair a repairable vehicle, they still would have been responsible for paying the shop for their labor in preparing the repair estimate, and the amount would have been included in any total loss settlement.*

- (2) The examiners found three violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.

***The Company agrees with the examiners observations with two and disputes one of the violations.***

- a. In one instance, the company failed to accurately inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.

***The Company agrees with the examiners observation on review sheet 664409553***

- b. In two instances, the company failed to accurately inform an insured of his benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM) when the file indicated the coverage applied to the loss.

***The Company respectfully disagrees with the alleged findings for review sheet 493334232. Section 8.01-66 permits the claimant to recover the reasonable cost to rent a comparable substitute vehicle:***

***Whenever any person is entitled to recover for damage to or destruction of a motor vehicle, he shall, in addition to any other damages to which he may be legally entitled, be entitled to recover the reasonable cost which was actually incurred in hiring a comparable substitute vehicle for the period of time during which such person is deprived of the use of his motor vehicle.***

***The company resolved the insured's loss of use claim by negotiated settlement.***

- (3) The examiners found four violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

*The Company agrees with the examiners observation with three and respectfully disputes one of the Violations.*

*The Company respectfully disagrees with the alleged findings for review sheet 1276790804. The Company was on notice of their representation from a phone call on 7/30/13 and had acknowledged their representation with a letter to the firm on 8/1/13. Further, the company spoke with the firm more than once after the verbal notice of representation. There were no additional items to respond to related to the letter of representation. As the letter acknowledging the attorney's representation was already sent, there was no need to send a duplicate letter.*

- (4) The examiners found six violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

*The Company understands the Bureau's position on three violations and respectfully disagrees on three of the violations.*

- 1) *The Company respectfully disagrees with the alleged findings for review sheet 596134847. The Company submits that this was an inquiry as to coverage and not a demand for payment. The company further wishes to note that the file is properly documented as to the conversation had with the insured in response to the coverage inquiry including confirmation provided that there was no coverage. Once the insured's inquiry was addressed, the insured went through the at fault party for the damages.*
- 2) *The Company respectfully disagrees with the alleged findings for review sheet 1888562085. The investigation concluded there was no liability found against our Insured. As no demand for payment was ever made by the Claimant, there was nothing to deny therefore a written denial was unnecessary.*

- (5) The examiners found ten violations of 14 VAC 5-400-70 D. The company failed

to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

***The Company agrees with the examiners observation.***

- a. In three instances, the company failed to pay the insured's rental benefits, available under the UMPD coverage and/or UIM coverage.

***The Company agrees with the examiners observation***

- b. In two instances, the company failed to pay the claim in accordance with ~~the policy provisions under the insured's Medical Expense Benefits~~ coverage.

***The Company agrees with the examiners observation.***

- c. In five instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses Coverage.

***The Company agrees with the examiners observation***

- (6) The examiners found four violations of 14 VAC 5-400-80 D. The company failed to provide the insured a copy of the estimate for the cost of repairs prepared by or on behalf of the company.

***The Company agrees with the examiners observation***

- (7) The examiners found two violations of 14 VAC 5-400-80 E. The company failed to document all information relating to the application of betterment or depreciation in the claim.

***The Company respectfully disagrees with two of the violations.***

- 1) *The Company respectfully disagrees with the alleged findings for review sheet 312306747. The estimate dated 6/14/2012 details the tread depth to calculate the betterment taken. [Claim Attachment2]*
- 2) *The Company respectfully disagrees with the alleged findings for review sheet 511689865. The Company acknowledges that the estimate dated 07/31/2012 shows the \$80 tow bill as an amount owed by the insured. However, this error was subsequently corrected on the estimate dated 08/17/2012 which shows the correct and accurate Customer Pay amount at \$500. The final estimate has no reduction for betterment or depreciation. [Claim Attachment3]*

- (8) The examiners found eight violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.

***The Company understands the Bureau's position on four violations and respectfully disagrees with four violations.***

- a. In six instances, the company issued written communications that misrepresented pertinent facts of the claim.

***The Company understands the Bureau's position on three violations and respectfully disagrees with three violations.***

- 1) *The Company respectfully disagrees with the alleged findings for review sheets 1389884268 and 1559639175. Section 8.01-66 permits the claimant to recover the reasonable cost to rent a comparable substitute vehicle: Whenever any person is entitled to recover for damage to or destruction of a motor vehicle, he shall, in addition to any other damages to which he may be legally entitled, be entitled to recover the reasonable cost which was actually incurred in hiring a comparable substitute vehicle for the period of time during which such person is deprived of the use of his motor vehicle.*

*The statute does not prohibit a daily rate, it merely requires that such a rate equate to a comparable substitute. The Company contends that the daily rates quoted equate to a comparable substitute vehicle*

- 2) *The Company respectfully disagrees with the alleged findings for review sheet 1390406950. The policy notes that "Our payment will be limited to that period of time reasonably required to repair or replace your covered auto." In this instance the file handler noted that the Company would not be responsible for "Unreasonable Shop Delays". This notation is consistent with the applicable policy language. The company did not indicate that the customer would be responsible for any shop delays, only those that were*

*unreasonable. Therefore, the statement is not misleading nor does it misrepresent pertinent facts of the claim or applicable policy provisions.*

- b. In two instances, the company failed to properly convey to the Insured and/or claimant the company's obligation concerning payment of the rental or loss of use claim.

*The Company respectfully disagrees with one violation.*

*The Company respectfully disagrees with the alleged findings for review sheet 42230434. There was no misrepresentation of pertinent facts. Review of the matter indicates there was no need for a rental vehicle as the claimant's vehicle was able to be safely driven after the loss. The vehicle was inspected at the residence of the claimant where it was determined to be a total loss due to the cost of repair. The total loss was settled upon receipt of the registration of the vehicle. There was never a need for a rental vehicle as the vehicle was drivable, damages were never repaired and the vehicle was not retained by the Company as salvage. The vehicle was safely driveable during the entire claim settlement process.*

- (9) The examiners found 15 violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

These findings occurred with such frequency as to indicate a general business practice.

*The Company understands the Bureau's position on four violations and respectfully disagrees with eleven of the violations.*

- 1) *The Company respectfully disagrees with the alleged findings for review sheet 610326200. The issue pertains to the late payment of the medical pay benefits which was addressed by the Bureau in review sheet 470291038 which the company acknowledged without further comment.*
- 2) *The Company respectfully disagrees with the alleged findings for review sheet 1390419577. The coverage decision is supported by the file note dated 5/7/13. Page 28 of attachment dated 3/25/13 has the letter from the primary carrier. [Claim Attachment4]*
- 3) *The Company respectfully disagrees with the alleged finding for review sheet 297111281. This issue was previously addressed in review sheet 934374621 which the Company continues to respectfully disagree. The file note of 2/27/13 indicates the insured resident child was a guest passenger in another*

*auto that did not have insurance coverage. Under the Virginia AP & C Auto policy issued to the insured, Part C, Uninsured Motorist Coverage, Insuring Agreement A. We will pay, in accordance with VA. Code Ann. Section 38.2-2206, damages which an insured . . . is legally entitled to recover from the owner or operator of an uninsured motor vehicle. . . " and under B. "Insured as used in this part means: 1. You or any family member." Accordingly, the company agreed to proceed with handling as a UMBI claim. The claim does reflect the coverage properly based on this documentation.*

- 4) The Company respectfully disagrees with the alleged findings for review sheet 2079264343. The Company submits that the file handler simply made a bodily injury settlement offer contingent upon resolution of liability for the loss. While the Company had not accepted liability at the time of the contingent offer, it did appear that liability was unfavorable. Accordingly the adjuster noted the file as such. No payments were made until the liability investigation was concluded.*
- 5) The Company respectfully disagrees with the alleged findings for review sheet 1390225487. The Company acknowledges that the PD payment was premature and ultimately inconsistent with their determination of liability. However, the company submits that the overall investigation was complete and proper. Once all facts were reviewed and the investigation was complete, the facts clearly supported a decision of liability against the Claimant. The Claimant's attorney did not disagree with the decision and all but acquiesced that liability was unfavorable for his client. Based on these facts the Company submits that the assertion of estoppel would not apply under these conditions. There was no detrimental reliance on the Company's initial payment of PD, the facts clearly supported the decision that the Claimant was at fault for the accident, and the Claimant was represented by counsel who did not dispute the findings and never asserted the theory of estoppel*
- 6) The Company respectfully disagrees with the alleged findings for review sheet 1916555079. The loss facts support potential contribution on the part of the Insured driver for stopping in a travel lane. The Insured did indicate she completed this action due to potential choking of a child in the back seat of their vehicle. The tort carrier continues to defend the case on a Contribution liability defense, likely due to the improper stop in a travel lane. However, the company feels the tort carrier may change their position and compromise to resolve due to the potential exposure to their Insured. The confirmed Medical bills to date are almost \$45,000. The tort has a \$25k liability policy and the Company has \$25k exposed on their UIM coverage. The Company continues to monitor the tortfeasor's position in this matter, which is proper before payment of their UIM policy*
- 7) The Company respectfully disagrees with the alleged findings for review sheet 1888316872. The loss was reported by the named Insured. The*

*Insured indicated his vehicle was parked and struck by a Hit and Run auto. The file note of 6/20/12 notes the Claim Handler discussed liability calculation of 0% with the Insured. Requiring another call to the Insured to re-verify loss facts is redundant and not necessary. The Company respectfully disagrees with the alleged findings for review sheet 446256016. The loss facts supported damage to the Claimant property. The claim handler reviewed the estimate and determined it to be reasonable. Accordingly, payment was made to resolve the matter.*

- 8) *The Company respectfully disagrees with the alleged findings for review sheet 1322947303. The Claimant's deductible was paid within six working days, well within the time frame allotted for investigation under 14 VAC 5-400-60.*
- 9) *The Company respectfully disagrees with the alleged findings for review sheet 1563985276. The adjuster stated in the denial letter to the Insured that our investigation revealed there was no Comprehensive coverage on the policy. Accordingly, the denial was proper.*
- 10) *The Company respectfully disagrees with the alleged findings for review sheet 1931912254. The loss date and report date is 2/14. The Total Loss of the vehicle was settled on 2/25, well within the time frame allotted for investigation under 14 VAC 5-400-60. The Company submits there was no unreasonable delay in investigating or resolving this matter. Further, there were no additional fees incurred by the party involved.*
- 11) *The Company respectfully disagrees with the alleged findings for review sheet 770399467. The offer to settle the Total Loss was on 10/6/12. The rental was extended through 10/11/12, which allowed time for the party to secure a replacement auto. The party is required to mitigate their damages. There was no delay in handling this matter.*

*These findings did not occur with such frequency as to indicate a general business practice.*

- (10) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia.  
The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.

*The Company respectfully disagrees with both violations.*

- 1) *The Company respectfully disagrees with the alleged findings for review sheet 883594368. This loss occurred on 5/7/13 and moved to a shop the same day. A very extensive estimate was prepared showing some \$18,204.76 in damages by 5/14/13. The insured was notified the vehicle was a total loss on 5/15/13. The coverage denial was received on 5/16. The insured was advised of the coverage denial on 5/21. A total loss offer was made to the insured on 5/22. The police report was also received on 5/22. The insured*

*accepted the offer on 5/25 but did not have name of lienholder. On 5/29 name of lienholder was obtained and lienholder was contacted. On 5/30 check was issued to lienholder. The Company submits that the POA was sent with the wrong name and that when the error was discovered it was corrected immediately and documents were overnighted to the insured. The Company submits that it was never in a position to settle the insured's total loss claim before 5/29. Any error with respect to the POA was addressed promptly. An offer was made on 5/22, within 5 business days from the date of the coverage denial, and on the same day the police report confirming the loss facts was received by the Company. While the insured accepted the offer on 5/25, he did not forward the Company the name of the lienholder until 5/29 thus prohibiting the Company from moving forward with the settlement. The day after the lienholder was identified (5/30) the draft was issued to the lienholder. The Company acknowledges that due to human error, the POA was not properly sent until 6/5. However, this was within 5 business days from the date the insured provided the name of the lienholder. Once the POA matter was sorted through, the insured was paid within 2 business days. This file was investigated and paid practically within one month from the date of loss. The claim was paid within seven business days from the date the insured provided all the necessary information. The delay attributed to the POA was as a result of human error and addressed promptly. The file notes reflect that the adjuster was actively engaged in investigating the claim and communicating with the insured. All pertinent communications and events were responded to, at most, within 5 business days. Once the adjuster realized the POA was incorrect, reasonable steps were taken to expedite the mailing. Upon reviewing the file as a whole, and in taking into consideration all communications and efforts made by the adjuster, the Company submits its actions do not rise to the level of a violation.*

- 2) *The Company respectfully disagrees with the alleged findings for review sheet 893610413. On 4/29/13 we instructed the body shop to only collect 200.00 because this was a UMPD claim; apparently they failed to do this and collected the full 500.00 from the insured. When the Company discovered the mistake, the Company issued \$300.00 to the insured to correct the error by the shop.*
- (11) The examiners found 20 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.
- These findings occurred with such frequency as to indicate a general business practice.

*The Company understands the Bureau's position on two violations and respectfully disagrees with 18 violations.*

*The Company respectfully disagrees with the alleged findings for review sheets 256506484, 175274088, 1387343340, 1568502670, 1790256444, 732325452, 81116798, 160670128, 1288255502, 1979661984, 1918696600, 1762512050, 1014715870, 1753631160, 1979974620, 1627410532, 575205566 and 70327248.*

*The Company respectfully disagrees with the examiners' observations and submits the following response in support thereof.*

*Section 38.2-510(A)(10) states is pertinent part that:*

*A. No person shall commit or perform with such frequency as to indicate a general business practice any of the following:*

*10. Making claims payments to insureds or beneficiaries not accompanied by a statement setting forth the coverage under which payments are being made.*

*The notation on the drafts that payment was made under both collision and comprehensive coverages, in the matters cited by the examiners, was accurate and correct. The Allstate Virginia Auto policy specifically defines breakage of glass as other than collision:*

*Collision means the upset of your covered auto or a nonowned auto or their impact with another vehicle or object.*

*Loss caused by the following is considered other than collision: 10. Breakage of glass.*

*If breakage of glass is caused by a collision, you may elect to have it considered a loss caused by collision.*

*The practice of covering glass under comprehensive coverage is permitted by the Allstate policy. Since payment for the representative cost of glass was made under comprehensive coverage, Virginia law requires the Company notify the insured that payment was made under this coverage. Accordingly, the reference to both coverages by Allstate was intentional as it accurately reflects the payment process and is required under Virginia law.*

*Allstate wishes to note that the practice of covering the breakage of glass under comprehensive coverage has been in place for over 20 years and is not limited to Virginia. This practice does not adversely impact the insured. It does not lower the compensation the insured would receive in a loss. It does not result in an additional loss to the insured. It does not result in any additional surcharges if applicable to a loss.*

*Further, the Company acknowledges that the policy permits the insured to elect under which coverage a glass loss may be covered. As a matter of process, the Company will apply comprehensive coverage to glass claims unless specifically instructed otherwise by the insured. The Company submits that this approach permits consistent claims handling which results in identical compensation for the glass loss to the insureds, expeditiously, without violation of any policy provisions. Obtaining the affirmative election of the insured as to coverage for glass breakage could only serve to delay the settlement to the insured. The current process is a far*

*more expeditious means of resolving the loss, in accordance with the policy provisions, and yields a consistent result for our insureds.*

*As this process has been in place for a significant period of time, a process change as contemplated by the Bureau would result in significant implications to the Company with no appreciable benefit to its insureds. Further, the law cited by the examiners does not support a process change. As the policy permits this practice, and the representative cost of glass is covered under comprehensive coverage, noting both coverages on the draft is appropriate and in fact required by the Virginia law cited by the examiners*

*These findings did not occur with such frequency as to indicate a general business practice.*

- (12) The examiners found seven occurrences where the company failed to comply with the provisions of the insurance policy.

The Company understands the Bureau's position on six violations and respectfully disagrees with one of the violations.

- a. In two instances, the company failed to pay the claim in accordance with the terms of the policy.

The Company respectfully disagrees with one of the violations.

*The Company respectfully disagrees with the alleged findings for review sheet 2087757179. The Company submits that UMPD should not have been extended in this instance as there was insurance coverage available from the at fault carrier. On 8/14/12, the Third-Party Carrier (TPC) indicated that they would reimburse our insured's deductible after they spoke to their policyholder. On 8/22/12 the TPC indicated that they were still in the process of contacting their policyholder. At this point in time, other insurance was identified and the TPC had not asserted a reservation of rights or denied coverage. The insured's damages were paid on 8/27/12, with the knowledge that other insurance existed. Subrogation against the third-party carrier was initiated on 9/3/2012 and six further follow-ups were completed with the third-party carrier. On 12/3/2012, a Subrogation payment was received from Ohio Mutual Ins Group, and a check for the insured's \$500 collision deductible was issued on 12/4/2012.*

- b. In two instances, the company paid an insured more than he/she was entitled to receive under the terms of his/her policy.

*The Company agrees with the examiners observation*

- c. In three instances, the company issued payments under the incorrect coverages.

*The Company agrees with the examiners observation*

### Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found three violations of § 8.01-425.1 of the Code of Virginia.

The company failed to provide the right of rescission when the claimant or insured was not represented by an attorney.

*The Company understands the Bureau's position on one violation and respectfully disagrees with two of the violations.*

*The Company respectfully disagrees with the alleged findings for review sheet 2031445106. The checks were not executed within 30 days of the incident. Accordingly, this would not be a violation. [Claim Attachment5 and Claim Attachment6].*

PROPERTY

#### Homeowner Claims

The examiners reviewed 119 homeowner claims for the period of June 1, 2012 through May 31, 2013. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$1,087.57 and underpayments totaling \$37,595.55. The net amount that should be paid to claimants is \$37,595.55 plus six percent (6%) simple interest.

- (1) The examiners found 24 violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

***The Company understands the Bureau's position on 16 violations and respectfully disagrees with eight of the violations.***

- 1) ***The Company respectfully disagrees with the alleged findings for review sheet 1511935332. The claim is a duplicate of 0253578801. Therefore, the claim in this violation was closed***
- 2) ***The Company respectfully disagrees with the alleged findings for review sheet 1926660480. The Certificate of Satisfaction is provide by Alacrity Services to ensure that the customer is satisfied with the repairs performed by their contractor. We do not send it or do we receive it. The warranty is sent by Alacrity Services at the conclusion of the repairs and occurs outside of the claim process.***
- 3) ***The Company respectfully disagrees with the alleged findings for review sheet 1200114174. The Company is attaching the estimate used to calculate depreciation. [Claim Attachment7]***
- 4) ***The Company respectfully disagrees with the alleged findings for review sheet 1469562548. The Company is attaching the estimate used to calculate depreciation.[Claim Attachment8]***
- 5) ***The Company respectfully disagrees with the alleged findings for review sheet 2053288864. The Company is attaching the estimate used to calculate depreciation. [Claim Attachment9]***
- 6) ***The Company respectfully disagrees with the alleged findings for review sheet 28925288. The Company is attaching the estimate used to calculate depreciation. [Claim attachment10]***
- 7) ***The Company respectfully disagrees with the alleged findings for review sheet 1807018386. This was a non-complex loss requiring minimal to no investigation. A police report was unnecessary in this claim and would only serve to delay compensating insured high school student for the loss of his laptop that was necessary for school. The police report number was obtained for future reference if necessary. The file note dated 10/15/12 also notes:***

**Origin of loss/What set the Loss into Motion: insd son left his book bag by his locker room locker during a sporting event and it was stolen**

**Cause of Loss: theft**

**Peril: Theft off premise**

**From where did the theft occur? school locker room**

**Theft by unknown suspect.**

- 8) **The Company respectfully disagrees with the alleged findings for review sheet 1594397634. The Company is providing the estimate prepared to settle this claim. [Claim Attachment 11]. The Company further contends that no receipts were obtained in this loss. This loss was of a non-complex handling nature and the claim handler determined that receipts were not necessary to conclude this claim. The handler does ask about receipts and documents and requests that they be retained until claim is settled in case the claim handler determined that they would be necessary.**

- (2) The examiners found ten violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.

**The Company understands the Bureau's position on five violations and respectfully disagrees on five of the violations.**

- a. In three instances, the company failed to inform the insured of the benefits under the Additional Living Expense coverage of the policy.

**The Company respectfully disagrees on one of the violations.**

**The Company respectfully disagrees with the alleged findings for review sheet 662517736. The ALE benefits were discussed on multiple dates with the insured. The Company compensated the insured for a two week move to a hotel. [Claim Attachment 12]**

- b. In two instances, the company failed to inform the insured of the replacement cost benefits under the Dwelling coverage of the policy.

**The Company agrees with the examiners observation**

- c. In three instances, the company failed to inform the insured of the replacement cost benefits under the Personal Property coverage of the policy.

***The Company respectfully disagrees with all three violations.***

- 1) ***The Company respectfully disagrees with the alleged findings for review sheet 1889634983. The payment in this case for personal property was \$445.95. No depreciation was taken. Since no depreciation was taken, an explanation as to how to recover withheld depreciation was unnecessary and inapplicable to this claim.***
- 2) ***The Company respectfully disagrees with the alleged findings for review sheet 258102873. The letter dated 3/19/13 explains replacement cost benefits under the Personal Property coverage of the policy.[Claim attachment 13]***
- 3) ***The Company respectfully disagrees with the alleged findings for review sheet 574708119. The insured reached the compensable limits of their policy for this loss. There was no depreciation that was recoverable because the policy limits had been reached. Explaining how to recover depreciation that was not recoverable was not pertinent to the claim***

- d. In two instances, the company failed to inform the insured of the specified limits under the Additional Property coverage of the policy.

***The Company respectfully disagrees with one violation.***

***The company respectfully disagrees with the alleged findings for review sheet 1824635733. Since the loss was ultimately determined to be due to wind not lightning, the benefit available under additional protection coverage for lightning losses was not pertinent to the claim.***

***These findings did not occur with such frequency as to indicate a general business practice.***

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

***The Company respectfully disagrees with this single violation.***

***The Company respectfully disagrees with the alleged findings for review sheet 228151998. The file note of 07/26/2012 clearly indicates a conversation with the***

***insured advising that the insured was going to see if the rugs could be cleaned.  
[Claim Attachment 14]***

- (4) The examiners found seven violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.

***The Company understands the Bureau's position on five violations and disagrees with two of the violations.***

- 1) ***The Company respectfully disagrees with the alleged findings for review sheet 1958864820. Upon further review, the Company determined that the insured withdrew this claim per file note dated 8/29/2012. [Claim Attachment 15]. The references that no denial letter was necessary were due to the fact that the claim was withdrawn by the insured.***
- 2) ***The Company respectfully disagrees with the alleged findings for review sheet 376291428. The Company did not deny this claim but requested receipts per letter dated 4/26/13. [Claim Attachment 16]***

- (5) The examiners found 18 violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.

***The Company understands the Bureau's position on seven violations and respectfully disagrees with eleven of the violations.***

- a. In four instances, the company failed to pay the entire claim under the insured's Dwelling Replacement Cost coverage.

***The Company respectfully disagrees with two of the violations.***

***1) The Company respectfully disagrees with the alleged findings for review sheet 1776569210. The insured was provided an allowance of \$2,234.60 in the payment of 9/8/12 for \$15,574.30 for Emergency clean-up as follows-***

***10. Replace Tarp - all purpose poly - 1,500.00 SF 0.55 825.00 (0.00) 825.00per sq ft (labor and material) This is for the tarping of the house with a 30' x 50' tarp before the tree was removed and then the tree service reinstalled the tarp after the tree was removed.***

***11. Emergency cleanup by the 60.00 HR 23.66 1,419.60 (0.00) 1,419.60 Insured's family - per hour\* This is for the emergency cleanup by the***

*Insured's family to mitigate any further water damage over three days and the tarp had to be reinstalled by the Insured's son after a following storm had blown off a portion of it.*

*Receipts' were purchases for these functions. These amounts are clearly offset by insured's receipts for items bought to perform this. The items purchased to perform these compensated actions are included. Customer was fully compensated. [Claim Attachment 17]*

*2) The Company respectfully disagrees with the alleged findings for review sheet 1427804010. Additional living expenses were discussed with the insureds on multiple occasions and a claim was never made for an increase in the water bill. Two different adjusters were on site multiple times and addressed all aspects of the claim with the customer and his daughter. The water is not mentioned specifically by the insured and it would be inappropriate for the Company to assume an increase especially since it is unknown whether this is a well or city water supply and it is also known to be a practice of many water authorities to reduce the bill to a normal monthly billing amount when the excess is not in the customer's control. No request was made for payment by the customer on a claim that had continuous interactions with multiple adjusters. It is reasonable, without additional documentation provided by the insured, to assume that nothing was due for water.*

- b. *In one instance, the company failed to pay the entire claim under the Additional Coverages coverage.*

*The Company agrees with the examiners observation*

- c. *In five instances, the company failed to pay the entire claim under the Additional Living Expense coverage.*

*The Company disagrees with five of the violations.*

- 1) The Company respectfully disagrees with the alleged findings for review sheet 2082149931. The Hotel room was a suite with a kitchen therefore the insured was placed in the same position they would have been but for the fire. Accordingly, the Company would not expect and increase in additional living expenses for food.*
- 2) The Company respectfully disagrees with the alleged findings for review sheet 159297069. The worksheet shows normal grocery expenses of \$125 and actual grocery expense of \$120.73 therefore the insured spent \$4.28 less than normal. Since no ALE for groceries was incurred it was not paid*
- 3) The Company respectfully disagrees with the alleged findings for review sheet 1368787255. The customer had ALE explained multiple times on phone and in person and was given ALE worksheets therefore the customer was sufficiently made aware of the availability of ALE. The customer was not living in the home and was staying in a hotel which was paid under her ALE.*

*Therefore the expected difference in electrical for a home that was not liveable, unless advised by the insured otherwise, would have been negligible at best. Since ALE was explained multiple times to the insured, and the insured was already receiving benefits under ALE, it is reasonable to assume that the customer did not make a claim for increased electricity costs because none was experienced.*

- 4) *The Company respectfully disagrees with the alleged findings for review sheet 1864692011. ALE states in part, "We will pay the reasonable increase in living expenses necessary to maintain your normal standard of living while you reside elsewhere..." Restaurants and groceries do not appear to fit this standard since the temporary residence had a kitchen that allowed the customer to maintain her normal standard of living. When the credit card statements were received, the adjuster followed up by requesting the receipts that the customer had been informed to keep at the onset of the loss. Electric amount was included in the packet as an amount and statement needed. It was written in as \$64.88 in January and nothing in February. No statements were submitted as instructed in the letter of 1/10 which reads in part, ".....Simply complete and return your worksheet along with documentation (billing statements, invoices or other receipts) Since ALE was fully explained, it can be assumed that the customer did not have an increase or didn't elect to pursue it. [Claim Attachment 18]*

- d. In seven instances, the company failed to pay the entire claim under the Insured's Personal Property Replacement Cost coverage.

*The Company understands the Bureau's position on three violations and respectfully disagrees with four of the violations*

- 1) *The Company respectfully disagrees with the alleged findings for review sheet 1816053304. The file note of 07/26/2012 clearly indicates a conversation with the insured advising that the insured was going to see if the rugs could be cleaned. [Claim Attachment 14]*
- 2) *The Company respectfully disagrees with the alleged findings for review sheet 1640299144. This claim was settled based upon the values provided to the Company by the insured. The insured was paid ACV for each item. In some instances, the insured replaced the item with an item valued at above RC while other items were replaced with an item valued at less than RC. For the items upgraded above RC, the Company gave the full withheld depreciation. For the items replaced at less than RC, the Company gave the difference between replacement and RC. The insured understood the manner in which the items were valued and provided details for each item that included the original cost, the replacement amount and the amount of depreciation the insured was expecting. This claim was investigated and settled with heavy involvement from the insured and her actions clearly demonstrated that she understood that any upgrades would be at her own*

expense. Below is a brief summary of the manner in which the items were paid.

*Regarding item 14 - Louis Vuitton, Peagase 55 NM Suitcase was the item stolen and priced for replacement. The item the insured replaced with according to her receipt is a Peagase 65 which is an apparent upgrade. The depreciation was released on the original item.*

*Regarding item 18 - Hollon Safe B2500 was the item damaged and priced for replacement. The item the insured replaced with according to her receipt is the same model and cost. The depreciation was released accordingly,*

*Regarding item 10 - replaced with upgrade and depreciation was released.*

*Regarding item 11 - Original item was priced at \$4,900 plus tax. Replacement receipt provided by insured states replaced with item that costs \$4,400.00 plus tax. Depreciation was released up to that amount*

*Regarding item 12 - Original item was priced at \$5,300 plus tax. Replacement receipt provided by insured states replaced with item that costs \$4,900.00 plus tax. Depreciation was released up to that amount*

*Regarding item 13 -Original item was priced at \$5,300 plus tax. Replacement receipt provided by insured states replaced with different item that costs \$6,500.00 plus tax. Depreciation was released up to original amount. The insured included taxes in her depreciation calculations which resulted in the final figures:*

*Item 10 - \$3,312.50*

*Item 11 - \$2,807.50*

*Item 12 - \$3,312.50*

*Item 13 - \$3,312.50*

- 3) *The Company respectfully disagrees with the alleged findings for review sheet 1836824014. We would not owe for the 40" TV as the 19" TV is obsolete. Policy states "Personal Property Replacement Cost will not apply to: 4) property that was obsolete or unusable for the originally intended purpose because of age or condition prior to the loss. " There are similar 19" models with the same features. GE no longer makes televisions. The Company does concede that it owes \$6.37 for food due to inadvertent claim handler error.*
- 4) *The Company respectfully disagrees with the alleged findings for review sheet 62734790. The insured represented, and the police report listed, the G Scale train as a collectible item therefore no depreciation was taken. On the*

*other hand, the insured did not represent that the HO scale train set as a collectible item nor did the police report note the HO scale train as a collectible item. Therefore, depreciation was taken. The Company acknowledges that it did not request receipts for all items. Rather, the adjuster in this case requested substantiation on recently purchased items that were of significant value. These include the TV set and the freezer. The TV set was substantiated by the price tag but the insured was unable to produce any substantiation of the recently purchased freezer. This insured originally claimed the freezer was worth \$1,000 then produced a valuation of \$584.99 almost 50% less than originally claimed. As freezer proof of ownership was not substantiated, per the Xact Contents estimate a freezer was priced out at Sears with specifications of Kenmore 5.1 cu ft Upright Freezer. The watch was only 15 years old which does not necessarily qualify it as an antique. Further, the insured was unable to provide any documentation to substantiate the claimed value of \$100. With respect to the antique sword, the insured was unable to provide any description of the item or substantiation as to the value. Accordingly, the adjuster secured a negotiated settlement for both items based on the very limited information provided by the insured.*

- e. In one instance, the company failed to pay the entire claim under the Insured's Personal Property coverage.

*The Company agrees with the examiners observation.*

These findings occurred with such frequency as to indicate a general business practice.

*These findings did not occur with such frequency as to indicate a general business practice.*

- (6) The examiners found 58 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.

*The Company understands the Bureau's position on 46 violations and respectfully disagrees with twelve of the violations.*

- a. In 11 instances, the company failed to properly convey to the Insured and/or claimant the company's obligation concerning payment of the claim.

*The Company respectfully disagrees with four of the violations.*

- 1) *The Company respectfully disagrees with the alleged findings for review sheet 1433413273. It appears the adjuster inadvertently typed a limit of \$500 in his initial documentation on 6/26. However, the subsequent actions taken by both the insured and adjuster during the course of this claim clearly shows that the adjuster was applying the correct coverage and that the insured was aware the loss was covered, in spite of the incorrect file entry. For example, the adjuster documented his discussion on 6/28 with the customer which clearly states to get the tree removed and send us the bill. And ultimately, the payment made for the tree debris removal well exceeded \$500. Additionally, the file note on 6/28 states, "Spoke with the insd and he said the tree removal company will be coming today and they will need to get a crane to do so and will send 3,man crew to remove the tree from home. He said they will need to go inside home to remove the tree to prevent any further damages. Advised insd to send in invoice for reimbursement and to let me know if any questions. The travel trailer is all set up and no issues there. Insd has been very pleased with claim handling so far and OA is scheduled to come out next Tues, 7/3. nfg " The Company submits that the file entry was an inadvertent error, however, the insured was made aware of the applicable coverages.*
- 2) *The Company respectfully disagrees with the alleged findings for review sheet 1306955668. The items were the replacement of glass in broken windows. The estimate was for the repair of the glass (reglazing) and is not an item subject to depreciation. The amount is the actual cash value to repair the damaged glass, therefore the statements that payment was made ACV is true and accurate in this instance.*
- 3) *The Company respectfully disagrees with the alleged findings for review sheet 1391111757. The Company submits that the gym membership was never denied, merely questioned then paid.*
- 4) *The Company respectfully disagrees with the alleged findings for review sheet 1390230128. In this case, the adjuster sent a letter to help further explain the ALE portion of the policy to the customers. In the process of inserting the policy wording, he inadvertently left part of the original document sentence in place. It is an obvious error which did not impact the customer, claim handling or outcome. There was no misrepresentation as the actual policy language used was accurate and assisted in helping to explain the customer's applicable policy provisions. The extra language inadvertently included by the adjuster clearly had nothing to do with coverages. Accordingly, the Company submits that this error does not rise*

*to the level of a violation.*

- b. In 47 instances, the company failed to properly represent the replacement cost provisions of the policy.

These findings occurred with such frequency as to indicate a general business practice.

*The Company respectfully disagrees with eight of the violations.*

- 1) *The Company respectfully disagrees with the alleged findings for review sheets 961890116, 214048988, 1741165532, 553616428, 1800383234, 1479551382. No depreciation was withheld therefore the missing word "last" was not pertinent to the claims. Since no depreciation was taken on these claims, explaining how to recover withheld depreciation that was not withheld was not pertinent to the claim.*
  - 2) *The Company respectfully disagrees with the alleged findings for review sheet 1249740300. The Company submits that RC benefits were discussed on 7/12/2012 per the following notation -Comment on explanation of RC, notate your discussion: rc contents/dwelling.*
  - 3) *The Company respectfully disagrees with the alleged findings for review sheet 883457624. While it appears the adjuster did not send a FRC settlement letter, a settlement call was conducted that explained the process as documented on 2-8-13. Part of the settlement explanation includes the way to recover depreciation according to the policy.*
- (7) The examiners found five violations of § 38.2-510 A 3 of the Code of Virginia.
- The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

*The Company understands the Bureau's position on one violation and respectfully disagrees with four of the violations.*

- 1) *The Company respectfully disagrees with the alleged findings for review sheet 1041879434. The Company submits that it was the insured's choice of a public adjuster that significantly impacted the timelines in resolving this claim. The public adjuster sent Allstate a letter of representation on 6/9, shortly after the date of loss. At that time the public adjuster represented that he would provide the Company with a list of the contents. There were several delays on the part of the public adjuster, and the mitigation company hired by the insured, in sorting through the items to determine which were salvageable and which were not, and in providing a list of all items to the Company. It appears, based on the file, that the reason items were not*

removed prior to 7/31/12 was because the insured's vendor/representative failed to sort through the items, identify items as destroyed/damaged, and complete the final inventory before that time. It is worthy to note that the Company provided an advance payment for UPP in June of 2012 and that a second request for payment was made in July for personal items such as clothing. However, at the time of the second request, the insured's clothing had already been cleaned and returned. Therefore, a question was raised as to need. Based on a subsequent conversation with the insured's public adjuster, an agreement was reached that an advance at that time was not necessary. The contents list was finally provided by the mitigation vendor at the end of July. However, the list did not include the age or cost of the items. The vendor was made aware by the Company on several occasions that this information was necessary to adjust the claim. However, per the vendor, this information was omitted at the request of the public adjuster. All of the information requested by the Company was reasonable and made within the parameters of the policy. This was a significant loss and the information necessary to properly adjust could not possibly have been obtained during the 6/4 onsite visit. Subsequent to that visit, the Company was partially dependant on the insured's representatives for information about the contents

- 2) *The Company respectfully disagrees with the alleged findings for review sheet 1468859451. This loss was reported on 7/3 and field inspected on 7/13 after the customer had the tree removed and all necessary emergency services done per our advice. After taking a scope of the loss, the adjuster made every attempt to work with the customer's contractor to obtain an estimate for review and settlement over a period of 2 weeks. After being unable to obtain, the adjuster then wrote his own on 8/1. The claim was handled properly and timely for this area of concern*
- 3) *The Company respectfully disagree with the alleged findings for review sheet 1751647285. A letter of explanation and instructions was sent to the customer on 1/10/13. It included a section set apart in bold that read:*

**Submit Receipts for Additional Living Expenses**

*Please submit all receipts related to your Additional Living Expenses, such as food and lodging receipts.*

*The letter on 4/6 asked for the receipts that the customer had been informed to keep on the first day of contact. ALE was explained in great detail and the letter of 1/10 fully supports that. The statements that the customer submitted without supporting receipts dated back to November. Given there were multiple meals with costs in excess of \$50.00, it was reasonable and necessary to request the receipts so as to properly adjust the loss. Review of the receipts was part of adjusting the claim. The Company submits that requesting the receipts under these circumstances was reasonable, was part of the claim process and did not cause an unreasonable delay*

- 4) *The Company respectfully disagrees with the alleged findings for review sheet 1083972175. This claim was reported initially as vandalism to a septic tank. Upon speaking with the repair person, it was confirmed that the top of the tank had been broken and caved in. The only reasonable explanation is that a vehicle drove over that portion of the yard where the tank was buried and caused the concrete to break. The Company was unable to confirm if the damage was caused on purpose or by accident. Regardless, the cause was determined and coverage for the loss would apply either way. The adjuster did not have any information to refute the damages on the all-risk portion of the policy so coverage was afforded and the claim was paid.*

- (8) The examiners found one violation of § 38.2-510 A 4 of the Code of Virginia. The company unreasonably refused to pay a claim for the contractor's overhead and profit.

*The Company respectfully disagrees with the single violation*

*The Company respectfully disagrees with the alleged findings for review sheet 1318362086. The Company did pay O&P. [Claim Attachment 19]*

- (9) The examiners found six violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.

*The Company understands the Bureau's position on five violations and respectfully disagrees with one of the violations.*

*The Company respectfully disagrees with the alleged findings for review sheet 1391112888. The file supports the lack of need of any further UPP advances. The Public Adjuster (PA) that was hired by the insureds agreed that no support could be given for further advances. The insureds were living in temporary housing that was fully furnished, they had their clothing cleaned and returned in a day and had the initial \$5,000 advance made after the PA requested it even after the insureds turned down our original offer stating they didn't need it.*

- (10) The examiners found 11 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

These findings occurred with such frequency as to indicate a general business practice.

***The Company understands the Bureau's position on seven violations and respectfully disagrees with four of the violations.***

- 1) ***The Company respectfully disagrees with the alleged findings for review sheet 1480594701. In this case, the loss was paid under the dwelling coverage but the peril wording that was locked in at report of claim was sewer backup. The wording on the accompanying check stub states, "In payment for Dwelling for Sewer Backup Loss of Date of Loss 2/20/2013. The Company submits that it is clear from the wording on the draft under which coverage the payment was made.***
- 2) ***The Company respectfully disagrees with the alleged findings for review sheet 1392825401. The Company previously responded to this violation under the auto portion of this regulation within this report.***
- 3) ***The Company respectfully disagrees with the alleged finding for review sheet 1032963389 and 894733167. In this case, the loss was incorrectly reported as a flood loss with NFIP. The claim was paid under the dwelling portion of the claim. The settlement wording used by the adjuster was for flood with NFIP. After the file was reviewed, it was determined that the wording had been sent in error. Immediately a corrective letter was sent to our customer. It did not change the payment amount or how it was settled and the customer was provided the correct information as soon as it was realized.***

- 
- (11) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.

***The Company agrees with the examiners observation***

- (12) The examiners found three occurrences where the company failed to comply with the provisions of the insurance policy.

***The Company understands the Bureau's position on two violations and respectfully disagrees with one of the violations.***

- a. In two instances, the company paid an insured more than he was entitled to receive under the terms of his policy.

***The Company respectfully disagrees with one of the violations.***

***The Company respectfully disagrees with the alleged findings for review sheet 1390510439. File note on 7/12/13 states there was an error by the person writing the estimate for the vendor that included rot and it should not have. File note on 7/15/13 states it is not rot. We handled this claim over the phone and repairs were well underway. The contractor gave reason for the mistake and the adjuster handled for the customer accordingly.***

- b. In one instance, the company failed to pay the claim under the correct coverage.

***The Company agrees with the examiners observation***

#### Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of other Virginia laws.

The examiners found two violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

***The Company agrees with the examiners observation***

#### Review of Forms

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for all of the lines of

Business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process Section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

### Automobile Policy Forms

#### POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 80 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

- (1) The examiners found two violations of § 38.2-2214 of the Code of Virginia. The company used a rate classification statement other than the one currently approved for its use by the Bureau.

***The company agrees with the examiners observation and has opened a compliance project to address this issue to have the forms revised to reflect the requirements in the statute noted above.***

- (2) The examiners found 15 violations of § 38.2-2220 of the Code of Virginia. The company used a version of a standard automobile form that was not in the precise language filed and adopted for use by the Bureau.

***The company agrees with the examiners observation and has opened a compliance project to address this issue to have the forms revised to reflect the requirements in the statute noted above.***

#### POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

## Homeowners Policy Forms

### POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 152 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

- (1) The examiners found six violations of § 38.2-317 A of the Code of Virginia. The company used forms that had not been filed with the Bureau at least 30 days prior to use.

***The company will file these forms so that they are on file and acknowledged by the Bureau.***

- (2) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination.

***The company agrees with the examiners observation***

### POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

## Review of the Policy Issuance Process

To obtain sample policies to review the companies' policy issuance process for the line examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverage's on the new business policies were the same as those requested on the applications for those policies

**Automobile Policies**

The companies provided three new business policies mailed on the following dates: June 20, and 21, 2013. In addition, the companies provided 11 renewal business policies mailed on the following dates: June 21, and 26, July 24, 25, and 26, and August 14, 2013.

**NEW BUSINESS POLICIES**

The examiners found two violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the Notice of Information Collection and Disclosure Practices as required by this statute.

***The company agrees with the examiners observation***

**Renewal Business Policies**

The examiners found no violations in this area.

**Homeowner Policies**

The companies provided nine new business policies mailed on the following dates: June 6, 7, 12, 14, 17, 18, 19, and 20, 2013. In addition, the companies provided

21 renewal business policies mailed on the following dates: April 16, 17, 18, 19, 21, 25,

And 29, 2013, and May 1, 2, 3, 7, and 9, 2013.

**NEW BUSINESS POLICIES**

The examiners found no violations in this area.

**RENEWAL BUSINESS POLICIES**

The examiners found five violations of § 38.2-2124 of the Code of Virginia.

The company failed to provide the Ordinance and Law Coverage notice as required by the Code of Virginia.

***The company agrees with the examiners observations***

### REVIEW OF STATUTORY NOTICES

The examiners reviewed the companies' statutory notices used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all Applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the companies, but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

General Notices	Statutory
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- (1) The examiners found three violations of § 38.2-604 B of the Code of Virginia. The companies failed to have available for use a long form Notice of Information Collection and Disclosure Practices.
- (2) The examiners found three violations of § 38.2-604.1 B of the Code of Virginia. The companies failed to have available for use the Notice of Financial Information Collection and Disclosure Practices.
- (3) The examiners found three violations of § 38.2-610 A of the Code of Virginia. The companies failed to have available for use an AUD notice.

***The company agrees with the observations related to 38.2.604 B and 38.2.604.1B noted above.***

***Related to 38.2-610 A, the company respectfully disagrees. The company acknowledges that the address to where an insured can send the request for more information is absent from the form. This notice, is included in the overall mailing package to an insured includes the name and address of their Allstate representative whether it be a local agent or our 1-800 24 hour customer service line. The company feels that access and knowledge as to where and how to reach their Allstate representative are prevalent throughout their new business and renewal declaration packages.***

### Statutory Vehicle Notices

- (1) The examiners found six violations of § 38.2-2234 A of the Code of Virginia.
  - a. In three instances, the companies failed to include all of the information required by the statute in its Credit Score Disclosure notice.
  - b. In three instances, the companies failed to include all of the information required by the statute in its Credit Score Adverse Action notice.

***The company respectfully disagrees that notice provided for review cannot reference another notice. We are unaware of a requirement in the statute that prohibits this practice and feel that the notice (X67419) meets the standard set in 38.2-2234 A-2/1. The company agrees to make adjustments to the specific language in the endorsement.***

### Statutory Property Notices

- a. In three instances, the companies failed to include all of the information required by the statute in its Credit Score Disclosure notice.
- b. In three instances, the companies failed to include all of the information required by the statute in its Credit Score Adverse Action notice.

***The company respectfully disagrees that notice provided for review cannot reference another notice. We are unaware of a requirement in the statute that prohibits this practice and feel that the notice (X67419) meets the standard set in 38.2-2134 A-1/2. The company agrees to make adjustments to the specific language in the endorsement.***

### Other Notices

The companies provided copies of three other notices that were used during the examination period.

The examiners found no violations in this area.

### Licensing and Appointment Review

A review was made of new business private passenger automobile policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the company as required by Virginia insurance statutes. In addition, the agent or agency to which the company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

## Agent

- (1) The examiners found seven violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination.
- (2) The examiners found two violations of § 38.2-1822 of the Code of Virginia. The company permitted a person to act in the capacity of an agent who was not licensed in the Commonwealth of Virginia.

The examiners found nine violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agency within 30 days of the date of the application.

*The company agrees with the examiners observations*

### REVIEW OF THE COMPLAINT-HANDLING PROCESS

A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found no violations in this area.

### REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

The Bureau requested a copy of the companies' information security program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The companies provided their information security procedures

### Part Two – Corrective Action Plan

Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. Unless otherwise noted, a ten percent (10%) error criterion was applied to all operations of the companies, with the exception of claims handling. The threshold applied to claims handling was seven percent (7%). Any error ratio above these thresholds indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This

section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

#### General

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty  
Insurance Company shall:

Provide a Corrective Action Plan (CAP) with their response to the Report.

#### Rating and Underwriting Review

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insured's or credit the insured's' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insured's' accounts.
- (3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the  
Companies acknowledge they have refunded or credited the overcharges listed in the file.
- (4) Specify accurate information in the policy by showing the garaging address, and listing applicable forms to the policy on the declarations page.
- (5) Properly represent the benefits, coverage, advantages and conditions of the policy by displaying the correct policy period on the declarations page.
- (6) Maintain a copy of all new business applications.
- (7) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, territories, symbols, model year, deductible factors, public protection classifications, credit information, base and/or final rates, filed fees and premium determination rules.

- (8) Update the insured's credit information at least once in a three year period or when requested by the insured.

***Company Response: Please see the Corrective Action Summary excel exhibit that outlines our process to address these items***

#### Termination Review

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insured's or credit the insured's' accounts the amount of the overcharge as the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insured's' accounts.

Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.

- (3) Calculate return premium according to the filed rules and policy provisions.
- (4) Provide proper notice of cancellation to the insured and/or lienholder when canceling a policy.
- (5) Obtain and retain valid proof of mailing cancellation and non-renewal notices to the insured and lienholder.
- (6) Cancel a policy insuring an owner-occupied dwelling when the notice is mailed after the 89th day of coverage only for those reasons permitted by § 38.2-2114 of the Code of Virginia.
- (7) Send the cancellation notice to the address listed on the policy.
- (8) Obtain advanced written notice when the insured requests cancellation of the policy.

***Company Response: Please see the Corrective Action Summary excel exhibit that outlines our process to address these items***

#### Claims Review

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send

The amount of the underpayment to insured's and claimants.

***The Company will issue payments to the insureds/claimants on all of the undisputed claims where underpayments were identified during the market conduct examination***

- (2) Include six percent (6%) simple interest in the amount paid to the insured's and claimants.

***The Company included six percent (6%) simple interest when making restitution to claimants and/or insureds.***

- (3) Complete and submit to the Bureau the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.

***The Company is returning a completed copy of the Claims Underpayments cited during the examination. The report is attached to this reply. The Company acknowledges that it has made payments to the insured's and claimants referenced in the file.***

- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.

***The Company has appropriate policies, plans and procedures in place to help ensure that all events and dates pertinent to the claim are appropriately documented in the claim file. These policies, plans and procedures will be re-communicated to those employees with file handling responsibilities.***

- (5) Document the claim file that all applicable coverage's have been discussed with the insured. Particular attention should be given to Medical Expense Benefits coverage, Transportation Expenses coverage, Uninsured Motorists coverage including rental benefits, Additional Living Expense coverage, replacement cost benefits under Dwelling and Personal Property coverage's, and Additional Coverage's.

***The Company has appropriate policies, plans and procedures in place to help ensure that all applicable coverages are discussed with insureds. The***

***Company expects all employees with claim handling responsibilities to follow these policies, plans and procedures. The Company will re-communicate to all employees with file handling responsibilities that all applicable coverages should be discussed with the insured and that the file should appropriately document such conversations. The Company will particularly emphasize that Medical Expense Benefits, Transportation Expense coverage, Uninsured Motorists coverage including rental benefits, Additional Living Expense coverage, replacement cost benefits under Dwelling and Personal Property coverages, and Additional Coverages.***

- (6) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.

***The Company has appropriate policies, plans and procedures in place to help ensure that all employees with claim handling responsibilities settle matters for a fair and reasonable amount as shown by the claim investigation, pursuant to the applicable policy provisions. The Company will re-communicate to all employees with file handling responsibilities these requirements and emphasize the need to follow all established claim requirements.***

- (7) Properly represent pertinent facts or insurance provisions relating to the relating to the replacement provisions of the policy.

***The Company will re-communicate to all employees with file handling responsibilities the requirement to properly represent pertinent facts or insurance provisions relating to the replacement provisions of the policy. To that end, and pursuant to the Bureau's recommendation, the Company is further committed to clarifying its letters by revising them to state that replacement cost is available 6 months from the last date of payment***

- (8) Adopt and implement standards for prompt investigation of claims.

***The Company has appropriate standards in place to help ensure prompt investigation of claims. These standards will be re-communicated to employees with claim handling responsibilities.***

- (9) Include a correct statement of coverage under which payments are made with all claim payments to insured's and claimants.

***The Company has appropriate processes, procedures and policies in place***

*that require employees with claim handling responsibilities to include a correct statement of coverage with payments issued. These standards will be re-communicated. The Company is further committed to making an adjustment with respect to its electronic communications by undertaking the correction of a computer error that resulted in certain email notifications concerning direct deposit to fail.*

#### **Forms Review**

Allstate Insurance Company,  
Allstate Indemnity Company and  
Allstate Property and Casualty Insurance Company shall:

- (1) File all homeowner forms with the Bureau at least 30 days prior to their use in Virginia.
- (2) Use the rate classification statement filed and approved by the Bureau.
- (3) Use the precise language of the standard automobile forms adopted by the Bureau.

*Company Response: Please see the Corrective Action Summary excel exhibit that outlines our process to address these items*

#### **Review of Policy Issuance Process**

Allstate Insurance Company  
Allstate Indemnity Company  
Allstate Property and Casualty Insurance Company shall:

- (1) Develop the long form Notice of Information Collection and Disclosure Practices to comply with 38.2604 B of the Code of Virginia.
- (2) Develop the AUD notice to comply with 38.2-610 A of the Code of Virginia
- (3) Develop the AUD notice to comply with 38.22114 C of the code of Virginia.
- (4) Amend the Insurance Credit Score Disclosure notice to comply with 38.2-2126 A 1 and 38.2-2234 A 1 of the Code of Virginia.
- (5) Amend the Insurance Credit Score Adverse Action notice to comply with 38.2-

2126 A 2 and 38.2-2234 A 2 of the Code of Virginia

*Company Response: Please see the Corrective Action Summary excel exhibit that outlines our process to address these items*

### **Licensing and Appointment Review**

Allstate Insurance Company

Allstate Indemnity Company

Allstate Property and Casualty Insurance Company shall:

- (1) Appoint agents and agencies within 30 days of the application
- (2) Permit only licensed agents to represent the company in the Commonwealth of Virginia.

*Company Response: Please see the Corrective Action Summary excel exhibit that outlines our process to address these items*

### **Part Three -- Recommendations**

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer:

#### **Recommendation**

We recommend the companies take the following actions:

#### **Rating and Underwriting**

- The companies should update their filed homeowner manual to reflect the company's current practices.

*Company Response: The Company acknowledges the examiners recommendations. The company is the process of updating our rules and rates to be better aligned with our current practices, to include updating our Scheduled Personal Property filings, AIC Condo filings and Protection class*

*rules. Additionally we will work with our underwriting group to ensure controls are in place to validate proper application of discounts.*

### Terminations

- The companies should accurately represent the effective date of cancellation
- The companies should record and report their cancellation that took place during the policy period that is being reviewed
- The companies should amend the wording on their Important Notices to advise the insured they may be eligible for fire insurance through the Virginia Property Insurance Association
- The Companies should state the effective date of suspension on the Suspension of Insurance endorsement or on the amended declarations page.
- The companies should comply with the provisions of the insurance policy by obtaining advance written notice of cancellation from the insured

***Company Response: The Company acknowledges the examiners recommendations.***

### Claims

- Acknowledge correspondence that reasonably suggest a reply is expected from insured's and claimants within ten business days

***The Company will re-communicate to all employees with file handling responsibilities the requirement to acknowledge within ten business days all correspondence that reasonably suggests a reply is expected***

- Make all claim denials in writing and keep a copy in the claim file

***The Company will re-communicate to all employees with file handling responsibilities the requirement to make all claim denials in writing and keep a copy in the claim file.***

- Provide copies of vehicle repair estimates prepared by or on behalf of the company to insured's and claimants

***The Company will re-communicate to all employees with file handling responsibilities the requirement to provide copies of vehicle repair estimates***

***prepared by or on behalf of the Company to insureds and claimants***

- Makes payments to the insured for the amount he/she is entitled to receive under the terms of the policy

***The Company will re-communicate to all employees with file handling responsibilities the requirement to make payments to insureds for the amount they are entitled to receive under the terms of the policy.***

- Provide the right of rescission when the claimant or insured is not represented by an attorney

***The Company will re-communicate to all employees with file handling responsibilities the requirement to provide the right of rescission when the claimant or insured is not represented by an attorney.***

- Include the insurance fraud statement on claims forms required by company as a condition of payment

***The Company will re-communicate to all employees with file handling responsibilities the requirement to only use Virginia claim forms that include the insurance fraud statement when required as a condition of payment.***

## Forms

- The companies should use bold type for the word "bodily" in the Virginia Allstate Indemnity Company Condominium form on page 2, under General Definitions Used In This Policy
- The companies should update their Basic Homeowner Policy based upon the recommendation review sheet received during the examination process
- The companies should update their Personal Auto Policy at the top of Page 2 to allow entry of the company name depending upon the company issuing the policy.
- The companies should remove the work "temporary" from Page 2, II., Option 2, of their Transportation Expense s Coverage – Virginia Endorsement

***Company Response: The Company acknowledges the examiners recommendations and will include the changes to our policy jacket wording when we make adjustment to our forms and notices as a result of the examiners other observations noted during the exam process.***

## Statutory Notices

- The companies should include on their Important Information Regarding Your

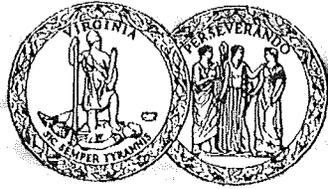
Insurance notice to the Commission's TDD number (804-371-9206); and the full zip code for both the companies and the Virginia State Corporation Commission. .

- The companies should not use the name notice to satisfy the requirements 38.2604 B and 38.2-604 C of the code of Virginia.

***Company Response: The Company acknowledges the examiners recommendations and will include the changes to our policy jacket wording when we make adjustment to our forms and notices as a result of the examiners other observations noted during the exam process***

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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<http://www.scc.virginia.gov/division/boi>

October 8, 2014

## VIA UPS 2<sup>nd</sup> DAY DELIVERY

Tom Mathes  
State Manager  
Allstate Insurance Co.  
15000 Conference Center Drive  
Chantilly, VA 20151-3842

RE: Market Conduct Examination  
Allstate Insurance Co. (NAIC # 19232)  
Allstate Indemnity Co. (NAIC # 19240)  
Allstate Property and Casualty Ins. Co. (NAIC # 17230)  
Examination Period: June 1, 2012 – May 31, 2013

Dear Mr. Mathes:

The Bureau of Insurance (Bureau) has reviewed the July 3, 2014 response to the Preliminary Market Conduct Report (Report) of Allstate Insurance Company, Allstate Indemnity Insurance Company, and Allstate Property and Casualty Insurance Company (Company). The Bureau has referenced only those items in which the Company has disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

## PART ONE – THE EXAMINERS' OBSERVATIONS

### Rating and Underwriting Review

#### Automobile New Business Policies

- (3b) The violations in this area remain in the Report. The Company must file all rate and supplementary rate information with the Bureau prior to using the information. The VIN information used to determine the PGS factors is a required step in determining the vehicle symbol and/or model year; as such, this information must be filed with the Bureau. For model year rating, the Company's filed rule conflicts with its filed rate factors. The Bureau acknowledges Rule 13B regarding calendar year adjustments. However, the Company has conflicting factors filed for comprehensive and collision coverage for model years 1999 and prior. Whenever a Company has

conflicting rules and rates in its manual, the Bureau applies the factors that are most advantageous to the insured.

### **Automobile Renewal Business Policies**

- (2b) The violations in this area remain in the Report. The Company must file all rate and supplementary rate information with the Bureau prior to using the information. The VIN information used to determine the PGS factors is a required step in determining the vehicle symbol and/or model year; as such, this information must be filed with the Bureau. For model year rating, the Company's filed rule conflicts with its filed rate factors. The Bureau acknowledges Rule 13B regarding calendar year adjustments. However, the Company has conflicting factors filed for comprehensive and collision coverage for model years 1999 and prior. Whenever a Company has conflicting rules and rates in its manual, the Bureau applies the factors that are most advantageous to the insured.

### **Homeowner New Business Policies**

- (1) After further review, the violations for with RHO004 and RHO009 have been withdrawn from the Report.
- (2) The violations for RHO058 and RHO059 remain in the Report. The declarations page displays an effective date of coverage that is one day after the actual coverage date. The declarations page is a contractual document and the terms and conditions apply as specified in the contract.
- (4) The violations cited in this section remain in the Report. The Company failed to have Scheduled Personal Property Rates on file with the Bureau prior to use. The Company should make all restitution as indicated in the Restitution Spreadsheet included with this letter.
- (5d) Based upon additional information obtained from ISO on the public protection class assignments, the violations for RHO008, RHO009, RHO056, RHO057 and RHO059 have been withdrawn from the Report. The over/undercharges associated with this change have been adjusted to reflect this change.
- (5e) After further review, the violation for RHO053 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

### **Homeowner Renewal Business Policies**

- (1) The violations for RHO027, RHO035, RHO039, RHO074, RHO082, RHO087, RHO088, RHO093, and RHO098 remain in the Report. The Company has not provided the Scheduled Personal Property Endorsement that was attached to each policy at the time of renewal.

(2) The violations cited in this section remain in the Report. The Company failed to have Scheduled Personal Property Rates on file with the Bureau prior to use. The Company should make all restitution as indicated in the Restitution Spreadsheet included with this letter.

(3d) Based upon additional information obtained from ISO on the assignment of public protection classes the violations of RHO042, RHO081 and RHO098 have been withdrawn. The Company should document the responding fire department in the insured's policy file.

The violations associated with RHO034 and RHO099 remain in the Report. The rules on file do not address which factors should apply when protection class 8B is the class assigned in the manual.

(3f) After further review, the violations for RHO021 and RHO024 have been withdrawn from the Report. The Report has been renumbered to reflect this change.

### **Terminations Review**

#### **Automobile Nonpayment of Premium**

(1) After further review, the violations for TPA035, TPA040 and TPA041 have been withdrawn from the Report.

The violation for TPA039 remains in the Report. The insured's address on the electronic delivery confirmation does not match the address on the declarations page.

The violation for TPA042 remains in the Report. The Company could not provide evidence of electronic delivery confirmation for both lienholders.

#### **Homeowner Notices Prior to the 90<sup>th</sup> Day of Coverage**

(2) The violation for THO003 remains in the Report. The Company sent the cancellation notice to a trustee instead of the insured. The trustee is not named on the declarations page. The Company has not provided documentation showing that the trustee was relevant to the cancellation.

### **Claims Review**

#### **Private Passenger Automobile Claims**

(1) The violations for CPA101, CPA017, CPA025, CPA026, CPA046, CPA069, CPA074, CPA086, CPA101, CPA103 and CPA107 remain in the Report. The Company cited the terms of the Multi-State Market Conduct Regulatory Agreement in its Response stating, "Allstate will provide notice to claimants

that the Colossus software program may be used in the adjustment of their bodily injury claims....”

The Company issues system generated letters created and mailed a few days after the Bodily Injury (BI) reserve is opened. In instances where the BI claims are settled on or shortly after the date of loss, the Company’s Colossus notice is provided after the negotiated settlement and is therefore irrelevant. Please refer to CPA001, CPA026, CPA069, CPA086, CPA101 and CPA107.

In CPA025, CPA046, CPA074, the Colossus notice was issued to claimants where no liability existed. For example, the Colossus letter was sent to the claimant in CPA025 three days after she admitted negligence and would have been barred from any BI recovery. In CPA046, the Colossus letter(s) were mailed to two claimants behind the insured vehicle in a four car pile-up. In CPA074, the claimant admitted to failing to stop at a red light. The Company sent the Colossus letter to this claimant even though he was liable for the loss.

The system generated Colossus letters, instituted by the Company to comply with the Multi-State Market Conduct Regulatory Agreement, conflicted with the claim facts as described above and were not relevant to the claims.

The violation for CPA028 remains in the Report. As the Company indicated in its Response, the “referenced Total Loss vs Repair report is incomplete”. This violation pertained to this specific area of the total loss process, not the fact that the vehicle was a total loss in general.

The violation for CPA041 remains in the Report. A claim file note dated January 13, 2014 stated that the insured needed the Company to return her call “ASAP”. The Company mailed a letter to the insured the next day alluding to an unsubstantiated conversation.

The violation in CPA070 remains in part in the Report, in part. Item one of the violations is removed. Item two remains in the Report. The Company should have advised the insured that a stop pay was placed on the draft and negotiating the draft would result in fees being assessed. Item three remains in the Report. The Company should have advised the insured of his rights regarding the subrogation of his out-of-pocket rental expense.

After further review, the violations for CPA018, CPA034, CPA048, CPA052, CPA056, CPA060, CPA074, CPA079 and CPA091 are withdrawn from the Report.

- (2) After further review, the violation for CPA112 is withdrawn from the Report.
- (3) After further review, the violation for CPA056 is withdrawn from the Report.
- (4) The violation for CPA051 remains in the Report. The insured “filed” the claim seeking payment. This act went above and beyond an inquiry.

The violation for CPA111 remains in the Report. . The claimant filed a claim seeking indemnification for the loss. The Company investigated the facts of the loss and determined that the insured vehicle had been removed from the policy prior to the loss. The Company verbally advised the claimant that he could not be paid because he was at fault. The Company did not issue a written denial to the claimant.

- (7) After further review, the violations for CPA004 and CPA010 have been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (8a) The violation for CPA047 remains in the Report. The Company noted in their Response that "The statute [8.01-66] does not prohibit a daily rate, it merely requires that such a rate equate to a comparable substitute. Prior to 1994 § 38.2-2230 of the Code of Virginia allowed for a daily limit for temporary substitute vehicles. The Code was changed in 1994 to eliminate the daily limit. Daily limits are not allowed in Virginia. The Company contends that the daily rates quoted equate to a comparable substitute vehicle." The Company agreed to a daily rate of \$31.25 without knowing the actual cost of a comparable vehicle. The insured's vehicle was a 2011 Mercedes Benz E350.

The violation for CPA119 remains in the Report. The company cannot document the cost of a comparable vehicle.

The violation for CPA081 remains in the Report. The Company's position that it would not be responsible for any "unreasonable shop delays" is too general or too broad for it to apply to all claims and/or all repair circumstances. A delay in the repair, not due to the insured or claimant would warrant an inquiry into the reason for the delay. If the delay was beyond the control of the repair facility or within the control of the repair facility, the Company's duty related to the "unreasonable shop delays" does not end by conveying this position to the insured or claimant in a general statement that pretends to be applicable to all auto repair scenarios.

- (8b) After further review, the violation for CPA102 has been withdrawn from the Report.
- (9) The violation for CPA095 remains in the Report. This violation relates to the Company's failure to promptly investigate, identify and pay the insured for the bill that was received by the Company on June 3, 2013. Payment was not released until August 22, 2013. The Company placed this file on a 60 day diary which resulted in the aforementioned bill being overlooked. This violation is separate and distinct from the violation chronicled in review sheet number ClaimVehPPA470291038; the latter violation was triggered due to the Company's failure to acknowledge the bill submitted by the insured within ten business days considering it was not handled by the Company until August.

The violation for CPA034 remains in the Report. The responding police officer indicated that the vehicle was a 2003 Toyota Corolla owned by the

policyholder. The insured's daughter was operating the vehicle at the time of the loss. The police report does indicate the daughter's address matched the policyholder's address. The Company's investigation never recognized why the information in the police report conflicted with the adjuster's entry of February 27, 2013.

The violation for CPA103 remains in the Report. The insured was driving his girlfriend's vehicle at the time of the loss. The Company attempted to settle the BI claim before it completed its investigation. The September 13, 2012 (7:20 A.M.) entry reads in part "advised liability pending contact with insd [sic] driver...but appears we owe...." Two minutes later an entry was made noting that the Company "...offered to project some costs for b/l settlement and she declined...she...would prefer to wait until she see hos [sic] she feels." At 12:18 P.M., the insured advised the Company that he was driving his girlfriends' vehicle. The Company attempted to settle the BI claim prior to establishing coverage.

The violation for CPA059 remains in the Report. The Company noted in its response that "the PD payment was premature and ultimately inconsistent with their determination of liability. However, the Company submits that the overall investigation was complete and proper." This violation addresses the fact that the Company made two Property Damage payments totaling \$6,593 before completing the investigation which concluded that both the insured and claimant contributed to this loss. The Company eventually denied the claimant's BI claim. Concerning estoppel, the examiner did not assert that the Company's action created an exposure of same but that the Company never considered possible consequences of denying the BI liability claim while paying the Property Damage liability claim.

The violation for CPA076 remains in the Report. The estimate lacked any information on the part of the entity repairing the trailer (business name, address, phone number, etc.). The February 7, 2013 estimate states that the "clmt poi [sic] was the trailer on the right side messing up fender...." The estimate includes the "Brake Axle" for \$830.00. Either the Company's description of the damage is inaccurate (i.e. fender) or the estimate is inflated; either way, the investigation did not secure the police report which could have provided the point of impact and/or damage description.

The violation for CPA068 remains in the Report. The policyholder believed she "should have comp [sic] coverage"; it was also noted "Please look into this." The policyholder's position that she "should" have Comprehensive coverage, needed to be verified with the Agent of record.

The violation for CPA082 remains in the Report. The Company sent the insured a letter dated February 19, 2013 that advised same that the "towing and storage fees incurred" would not be covered after February 20, 2013 - the very next day. Giving the insured one day notice was unreasonable and further, providing this notice via traditional mail instead of email (the total loss evaluation was emailed) was punitive to the insured. Finally, the Company

should not have referenced "towing and storage fees incurred" as the Company owed the towing expense regardless of the negotiated outcome.

The violation for CPA061 remains in the Report. Although the total loss offer was extended to the claimant on October 6, 2012 and the rental was approved to October 11, 2012, the CCC evaluation was not mailed until October 9, 2012. This same day, the claimant was advised that he would be liable for the storage charges going forward and on October 10, 2012, the claimant was advised that the rental would not be extended. The Company's actions limited the claimant's ability to analyze the CCC evaluation and verify that the offer was accurate; this in light of the fact that the claimant was responsible for the on-going storage and rental charges.

After further review, the violations for CPA055, CPA086, CPA087 and CPA108 have been withdrawn from the Report.

- (10) After further review, the violation for CPA094 has been withdrawn from the Report.

The violation for CPA045 remains in the Report. The Company failed to pay the \$300.00 owed to the insured under the Uninsured Property Damage coverage until four months after the Company paid the collision coverage. It is this delay, coupled with the fact that the "DRP" shop collected the insured's full Collision deductible at the time of the repair that resulted in this violation.

- (11) The violations for CPA017, CPA019, CPA022, CPA025, CPA029, CPA031, CPA038, CPA048, CPA052, CPA056, CPA061, CPA064, CPA069, CPA082, CPA086, CPA109, CPA112, and CPA118 remain in the Report. The Company is applying two different coverages for the same type of loss.

The Company is separately coding the glass under comprehensive coverage with a standard value of \$75 for total losses caused by collision. The Company is allowing the glass breakage to be covered again under the collision coverage, even though there is no evidence of glass damage. The Company should cover losses under the correct coverage. If the loss is a comprehensive loss, ALL damage should be paid under other than collision (OTC) coverage. If the loss is caused by collision, ALL damage should be paid under collision, not \$75 allocated to OTC as there is first, no glass damage and second, no evidence of an OTC loss. It appears that the Company is reporting inflated OTC claims (glass losses) in its statistical reporting.

- (12a) After further review, the violation for CPA010 has been withdrawn from the Report.

#### **Other Law Violations**

After further review, the violations for CPA093 have been withdrawn from the Report.

### Homeowner Claims

- (1) The violation for CHO015 remains in the Report. It was not possible to determine the course of the claim handling from October 29, 2012 through January 16, 2014. The Company cannot account for any file activity during this period of time.

The Company has referenced review sheet 0253578801 in their response. The Bureau is unable to locate any review sheet generated with this number. Our records show only one violation on this claim. If the Company has evidence of a review sheet with this number please provide copies with your response to this letter.

After further review, the violation for CHO008 has been removed from the Report.

The violation for CHO053 remains in the Report. The Company cannot document their application of 90% depreciation on an antique sword and an antique train set valued together at \$3,050.00 of which the Company paid \$84.97.

The violation for CHO027 remains in the Report. The information obtained during the examination, as well as the information provided in Exhibit 8 identifies the age and use for each item. However, the average life expectancy of each item was not included. This information is essential in determining the amount of depreciation taken for each year.

After further review, the violation for CHO016 has been withdrawn from the Report.

The violation for CHO018 remains in the Report. The Company is inconsistent in its application of depreciation as is evidenced in items seven and eight in the inventory list included in exhibit seven.

After further review, the violation for CHO062 has been withdrawn from the Report.

- (2a) After further review, the violation for CHO025 has been withdrawn from the Report.
- (2c) After further review, the violations for CHO040, CHO75 and CHO111 have been withdrawn from the Report.
- (2d) The violation for CHO06 remains in the Report. The Company has consistently maintained that the loss was determined to have occurred by the

peril of wind instead of lightning and therefore benefits available under Additional Protection coverage for lightning losses were not pertinent to the claim. The first notice of loss dated June 29, 2012 describes the loss as "tree on home" and the peril as "lightning". The Company's National Catastrophe Team inspected the insured's premises on July 3, 2012 and described the loss as lightning. From July 16, 2012 to November 5, 2012, the Company issued 9 payments totaling \$150,710.40, each with the notation, "In payment for dwelling for Lightning Loss for Date of Loss June 29, 2012".

Reference to general business practice has been withdrawn from this review item.

- (3) The violation for CHO004 has been withdrawn from the Report.
- (4) The violation for CHO063 remains in the Report. The file is documented in two different places that it is the Company's practice not to send a written denial in the event of catastrophes. The insured presented a claim for damages to the dwelling as a result of flooding. The Company determined on August 27, 2012 that no coverage existed for flood damage. The insured withdrew his claim on August 29, 2012. However, this occurred two days *after* the Company determined that no coverage existed. On August 31, 2012, the claims file states that the claim was closed without payment and that a denial letter is not required. Coverage was denied and a denial letter should have been provided to the insured.

The violation for CHO075 remains in the Report. The insured submitted a claim on April 26, 2012 for a safe (\$525), light bulbs (\$9.16) and paint (\$18.96). The insured identified these specific items on the credit card list. None of these items were included in the settlement. The Company's letter only advised the insured regarding Additional Living Expenses. The letter did not address or deny the above items that were not reimbursed by the Company but were claimed by the insured.

- (5a) After further review, the violations for CHO004 and CHO008 have been withdrawn from the Report. The violation for CHO008 has been rewritten under review sheet ClaimPropHO1409236451 and now appears under item (2a) in the Report. The Report has been revised to reflect this change.
- (5c) After further review, the violations for CHO025 and CHO027 have been withdrawn from the Report.

The violation for CHO052 remains in the Report. The Company's Xact estimate of July 27, 2012, specifically identifies "Air mover (per 24 hour period) No monitoring" and "Dehumidifier in use for 7 days (per 24 hour period) No monitoring" for four separate areas of the insured's dwelling. The insured's e-mail of March 22, 2012 advised that while unpacking items in storage for over 6 months, 19 loads of laundry were washed and dried. The Company did not advise the insured that her policy would cover the utility expenses exceeding prior average use.

After further review, the violation for CHO075 has been withdrawn from the Report.

- (5d) After further review, the violations for CHO004 and CHO016 have been withdrawn from the Report.

The violation for CH052 remains in the Report. The insured advised the Company, on October 16, 2013, that the TV claimed as part of the loss of June 29, 2012 was a 27 inch TV and not a 19 inch as originally reported. The Company's claim notes dated September 20, 2013 informed the insured of the Company's ability to verify prices for a 19 inch TV or the next size up.

The violation for CHO053 remains in the Report. The Company in its response identified the review sheet as 62734790. The correct number is 627347990. The Company stated in their Response "the insured represented, and the police report listed, the G Scale train as a collectible item. Therefore, no depreciation was taken". The insured reported to the Company that an antique sword for display with sheath 50 Years old valued at \$800 was bought at an antique show. The original police report by the investigating officer also verified that the sword was an antique and was valued at \$800. The same criteria used in determining the value of the antique G Scale train as a collectible item was not applied to the antique sword. The Company calculated the replacement value of the sword at \$155.39 using a quote from Wal-Mart of \$147.99 plus \$7.40 tax and taking undocumented depreciation of \$133.19 resulting in the ACV for the item of \$22.20. As a result, the Company under paid the claim for the antique sword by \$817.78 (\$840, includes 5% sales tax of \$40, less \$22.20). The insured included in his loss the theft of a 40 year old HO scale trains valued at \$850. The original police report showed the same value of \$850. The Company arrived at a replacement cost value of \$849.75 with undocumented depreciation of \$764.78 resulting in an ACV of \$84.97. The Company should contact the insured to determine if these trains are in fact collectibles. An individual appointed to speak on the insured's behalf advised the Company that a 51 or 52 inch Panasonic TV worth \$900 and only 8 months old was included as one of the stolen items. The police report verified the insured's description and value of \$900. The insured also provided the Company with documentation from HHGregg documenting the price of a 51 inch class Plasma TV at \$899.95 adding sales tax of \$45 (5%) and subtracting depreciation of \$46.90 results in an ACV of \$898.05. The Company estimated the value of \$699.99 with 5% sales tax resulting in replacement costs of \$734.99 less depreciation of \$46.90 resulting in actual cash value of \$688.09. The Company's response to the preliminary report acknowledges the fact that the TV set was substantiated by the price tag. The difference between the insured's documented value of the item and the Company's undocumented value results in an under payment due the insured of \$209.96. The insured and police report set the value of the stolen pocket watch at \$100. The initial police report identified the watch as an antique and the insured description indicated that it included a picture of a train. The Company's response to the preliminary Report stated that the insured was unable to provide any documentation to substantiate the claim value of \$100. The Company

assigned an undocumented value of \$36.23 plus tax in the amount of \$1.81 (5% x \$36.23) less depreciation of \$27.17 resulting in an ACV value of \$9.06. This did not appear to apply to the collectible antique trains as the Company paid the amount claimed by the insured without documentation to substantiate the claimed value of \$2,200. The insured originally reported the refrigerator as being 5.1 cubic feet. However, the Company failed to address with the insured the documentation received from him identifying the freezer size and 16.71 ft. The Company's method used in assessing values for each item appears to be inconsistent. The company should reopen the claim and pay the total underpayments of \$1027.36 (\$817.40 for the antique sword plus \$209.96 for TV).

Based upon NAIC guidelines the violation of any one statute or regulation that exceeds 7% of the sample is considered a general business practice. The sample selected for the Claims Homeowners review was 117. Seven percent of 117 is 8.19. There are currently ten violations of this regulation causing this to constitute a general business practice.

- (6a) The violation for CHO004 remains in the Report. The Company's initial response to the review sheet indicated that a copy of the tree removal invoice would be sent under separate cover. The Company's response to the preliminary report reiterated the company's position, but did not include a copy of the invoice for review.

The violation for CHO102 remains in the Report. The examiner's original observations referred to the Company's letter to the insured dated 8/16/12. The letter states "Below, we've included the actual language from your policy for your review". The language that followed did not track the verbiage in the policy. The Company has admitted that the verbiage contained in the letter does not track with that of policy.

After further review, the violations for CHO029 and CHO049 have been withdrawn from the Report. The Report has been revised to reflect this change.

- (6b) The violations for CHO010, CHO020, CHO018, CHO032, CHO065 and CHO091 remain in the Report. The wording used in the Company's settlement letter states that the insured must notify the company within six months of the date of actual cash value payment of their intent to repair rebuild or replace the property. The insured's Homeowners policy specifically states that the company will pay for loss with the difference between the ACV and full replacement costs within six months of the latter (1) the last date on which you receive actual cash value payment for the covered property. The exclusion of the word "last" does not accurately reflect the verbiage in the insured's policy.

The violation for CHO011 remains in the Report. The Company did not advise the insured when issuing payment for unscheduled personal property that he/she could make a claim for additional payments within six months of the last date of an actual cash payment.

The violation for CHO033 remains in the Report. The "Payment Worksheet for AA-Dwelling" showed replacement costs on the dwelling of \$4,116.06. Depreciation in the amount \$799.58 was taken along with the \$500 deductible, leaving an outstanding ACV settlement of \$2,816.48. A check was issued on 2/8/13 in the amount of \$2,816.48. The payment did not include a letter or statement to the insured advising them of the Company's obligations to the insured concerning replacement cost.

- (7) After further review, the violation for CHO049 has been withdrawn from the Report. The Report has been revised to reflect this change.

The violation for CHO052 remains in the Report. As stated in the examiner's original observations, the claim occurred on 6/29/12. The company acknowledges that the loss was reported on 7/3/12, and a field inspection was completed on 7/13/12. The file notes indicate and the Company has verified that adjuster waited until 8/1/12 to complete an estimate on the damages to the insured's dwelling. The time the insured reported the loss until the estimate was completed was approximately one month.

After further review, the violation for CHO075 has been withdrawn from the Report. The Report has been revised to reflect this change.

The violation for CHO106 remains in the Report. The loss occurred on 10/13/12. The first notice of loss dated 10/22/12 identified the claim as a result of vandalism/malicious mischief. The contractor performing the repairs to the damaged property indicated that the top to the septic system was caved in and that the whole tank would need to be replaced. The Company did not inspect the property or determine that the loss occurred directly as a result of vandalism. In response to the preliminary report, the Company concluded that the only "reasonable" explanation was that a vehicle drove over that portion of the yard where the tank was buried and caused the concrete to break. The lack of implementing reasonable standards for the prompt investigation of claims led to the "assumption" that the cause of loss was vandalism.

- (8) After further review, the violation for CHO060 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

- (9) The violation for CHO049 remains in the Report. The Company paid a total of \$322,361 for damages done to the insured's dwelling. An additional \$46,830 was paid under the ALE coverage. The Company made a \$5,000 advance to the insured for damage to personal property. On 7/26/12, the insured requested an additional advance of \$10,000. The Company would not agree to the advance even though the Company was well aware that the roof was severely damaged along with the top floor of the dwelling, and that property damage would exceed the requested advance in the amount of \$10,000. As of 12/22/12, the company issued a partial payment for the personal property of \$50,404.15. This payment was approximately 6 months after the loss. The total paid on the Claim for Personal Property/contents was \$190,390. The

advancement of \$10,000 would have been reasonable given the overall damages to the dwelling and personal property.

- (10) After further review, the violation for CHO041 has been withdrawn from the Report. The Report has been revised to reflect this change.

The violation for CHO079 remains in the Report for the reason outlined in the Bureau's response to the private passenger claims section of this Report.

The violations for CHO107 and CHO108 remain in the Report. Initial checks issued for both CHO107 and CHO108 contained the following wording "In payment for, Dwelling, Other Structures and Unscheduled, Personal Property for Flood-with NFIP (National Flood Insurance Policy) Loss for date of Loss 10/29/12." The checks should have advised the insured of the pertinent coverages applicable to the homeowner's policy instead of coverages through the NFIP.

- (12a) The violation for CHO079 remains in the Report. The file notes entered by the Company do not state that the damage was not caused by rot. The Company simply used different wording to state that the wood was damaged but it was not specific as to what caused the damage to the wood.

### **Homeowner Forms**

- (2) After further review the violation for FHO118 is withdrawn.

### **General Statutory Notices**

- (3) The violations in this section remain in the Report. The Adverse Underwriting Decision must advise the person where to make a written request for additional information. An assumption cannot be made that the person would know to reference an address shown in unrelated documents that are included in the mailing. Additionally, the Company's notice does not advise the person of the 90-Day time limitation that begins at date of the mailing.

### **Statutory Vehicle Notices**

- (1a) The violations in this Section remain in the Report. It is the Company's practice to obtain credit. This should be clearly communicated in the Company's notice. Should the customer wish to have a copy of the report, the customer should be given the option to contact the Company for a copy.
- (1b) After further review, the violations in this section have been withdrawn.

### **Statutory Property Notices**

- (1a) The violations in this Section remain in the Report. It is the Company's practice to obtain credit. This should be clearly communicated in the Company's notice. Should the customer wish to have a copy of the report, the customer should be given the option to contact the Company for a copy.
- (1b) After further review, the violations in this section have been withdrawn from the Report.

## **PART TWO – CORRECTIVE ACTION PLAN**

The Companies failed to include a Corrective Action Plan (CAP) in their response. There were spreadsheets with instructions and timelines to Allstate's personnel but there was no response to the Bureau of the steps taken by the Companies to implement corrective actions for the items cited in the Report.

The Companies should submit a complete CAP to address the violations in Rating and Underwriting, Terminations, Claims, Forms, Policy Issuance, Notices and Agent/Agency. The Forms CAP should include the date the Companies anticipate the forms revisions will be filed with the Bureau.

The Companies should make the outstanding Restitution as outlined in the enclosed Restitution Spreadsheet.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet and any review sheets withdrawn, added or altered as a result of this review. The Companies' response to this letter is due in the Bureau's office by November 1, 2014.

Sincerely,

Joy M. Morton  
Supervisor  
Market Conduct Section  
Property and Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

Enclosures



October 30, 2014

Virginia Market Conduct Examination  
Allstate Insurance Company, #19232  
Allstate Indemnity Company, #19240  
Allstate Property and Casualty Company, #17230  
Examination Period: June 1, 2012 – May 31, 2013

Allstate Insurance Company Response of the Bureau of Insurance October 8, 2014 letter:

Part One- The Examiners' Observations

Rating and Underwriting

### **Automobile New Business Policies**

(3b) the violations in this area remain in the Report. The Company must file all rate and supplementary rate information with the Bureau prior to using the information. The VIN information used to determine the PGS factors is a required step in determining the vehicle symbol and/or model year; as such, this information must be filed with the Bureau. For model year rating, the Company's filed rule conflicts with its filed rate factors. The Bureau acknowledges Rule 13B regarding calendar year adjustments. However, the Company has conflicting factors filed for comprehensive and collision coverage for model years 1999 and prior. Whenever a Company has conflicting rules and rates in its manual, the Bureau applies the factors that are most advantageous to the insured.

***The company agrees to update our existing Symbol pages to include the VIN prefix information. This additional information to our symbol pages will not alter or change the PGS assignment process or the rating of vehicles based on our filed rates, but will provide the transparency requested to see how the year, make and sub models are assigned to Price Group Symbols. The company will also modify our rating pages for model year to better align with our stated rules. These changes will be filed on or before January 1, 2015.***

### **Automobile Renewal Business Policies**

(2b) the violations in this area remain in the Report. The Company must file all rate and supplementary rate information with the Bureau prior to using the information. The VIN information used to determine the PGS factors is a required step in determining the vehicle symbol and/or model year; as such, this information must be filed with the Bureau. For model year rating, the Company's filed rule conflicts with its filed rate factors. The Bureau acknowledges Rule 13B regarding calendar year adjustments. However, the Company has conflicting factors filed for comprehensive and collision coverage for model years 1999 and prior. Whenever a Company has conflicting rules and rates in its manual, the Bureau applies the factors that are most advantageous to the insured

***The company agrees to update our existing Symbol pages to include the VIN prefix information. This additional information to our symbol pages will not alter or change the PGS assignment process or the rating of vehicles based on our filed rates, but will provide the transparency requested to see how the year, make and sub models are assigned to Price Group Symbols. The company will also modify our rating pages for model year to better align with our stated rules. These changes will be filed on or before January 1, 2015.***

## Homeowner New Business Policies

- (1) After further review, the violations for with RH0004 and RH0009 have been withdrawn from the Report.

***The company appreciates the examiners consideration and removal of the above noted items***

- (2) The violations for RH0058 and RH0059 remain in the Report. The declarations page displays an effective date of coverage that is one day after the actual coverage date. The declarations page is a contractual document and the terms and conditions apply as specified in the contract.

***As noted in our original response, the company feels that the binder provisions represented on our applications and the information provided on declaration pages meet the standards set forth by Virginia code. We agree to review our internal processes to ensure consistency in the benefits that are represented on the policy contract.***

- (3) The violations cited in this section remain in the Report. The Company failed to have Scheduled Personal Property Rates on file with the Bureau prior to use. The Company should make all restitution as indicated in the Restitution Spreadsheet included with this letter.

***The company will comply with the request to make all restitutions as indicated in the spreadsheet provided. However, the company would like to restate our disagreement. While we agree to the fact that our SPP manuals had not been made across all companies, it is clear that our intention and practice was to apply the rates on file across our companies for Scheduled Personal Property.***

- (5d) based upon additional information obtained from ISO on the public protection class assignments, the violations for RH0008, RH0009, RH0056, RH0057 and RH0059 have been withdrawn from the Report. The over/undercharges associated with this change have been adjusted to reflect this change.

***The company appreciates the examiners consideration and removal of the above noted items***

- (5e) after further review, the violation for RH0053 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

***The company appreciates the examiners consideration and removal of the above noted items***

## Homeowner Renewal Business Policies

- (1) The violations for RH0027, RH0035, RH0039, RH0074, RH0082, RH0087, RH0088, RH0093, and RH0098 remain in the Report. The Company has not provided the Scheduled Personal Property Endorsement that was attached to each policy at the time of renewal.

***The company agrees to review this concern to provide for itemized view of the scheduled items on the declaration page. A compliance project has been opened on this specific issue and we will continue to monitor its progress and timelines for completion***

- (2) The violations cited in this section remain in the Report. The Company failed to have Scheduled Personal Property Rates on file with the Bureau prior to use. The Company should make all restitution as indicated in the Restitution Spreadsheet included with this letter.

***The company will comply with the request to make all restitutions as indicated in the spreadsheet provided. However, the company would like to restate our disagreement. While we agree to the fact that our SPP manuals had not been made across all companies, it is clear that our intention and practice was to apply the rates on file across our companies for Scheduled Personal Property.***

- (3d) Based upon additional information obtained from ISO on the assignment of public protection classes the violations of RH0042, RH0081 and RH0098 have been withdrawn. The Company should document the responding fire department in the insured's policy file.

*The company appreciates the examiners consideration and removal of the above noted items*

The violations associated with RH0034 and RH0099 remain in the Report. The rules on file do not address which factors should apply when protection class 8B is the class assigned in the manual.

- (3f) after further review, the violations for RH0021 and RH0024 have been withdrawn from the Report. The Report has been renumbered to reflect this change.

*The company appreciates the examiners consideration and removal of the above noted items*

## **Terminations Review**

### **Automobile Nonpayment of Premium**

- (1) After further review, the violations for TPA035, TPA040 and TPA041 have been withdrawn from the Report.

*The company appreciates the examiners consideration and removal of the above noted items*

The violation for TPA039 remains in the Report. The insured's address on the electronic delivery confirmation does not match the address on the declarations page.

*The company agrees with the examiners observation*

The violation for TPA042 remains in the Report. The Company could not provide evidence of electronic delivery confirmation for both lienholders.

*The company agrees with the examiners observation*

### **Homeowner Notices Prior to the 90 day of Coverage**

- (2) The violation for TH0003 remains in the Report. The Company sent the cancellation notice to a trustee instead of the insured. The trustee is not named on the declarations page. The Company has not provided documentation showing that the trustee was relevant to the cancellation

*The company agrees with the examiners observation*

## **Claims Review**

### **Private Passenger Automobile Claims**

- (1) The violations for CPA101, CPA017, CPA025, CPA026, CPA046, CPA069, CPA074, CPA086, CPA101, CPA103 and CPA107 remain in the Report. The Company cited the terms of the Multi-State Market Conduct Regulatory Agreement in its Response stating, "Allstate will provide notice to claimants

that the Colossus software program may be used in the adjustment of their bodily injury claims...."

The Company issues system generated letters created and mailed a few days after the Bodily Injury (BI) reserve is opened. In instances where the BI claims are settled on or shortly after the date of loss, the Company's Colossus notice is provided after the negotiated settlement and is therefore irrelevant. Please refer to CPA001, CPA026, CPA069, CPA086, CPA101 and CPA107.

In CPA025, CPA046, CPA074, the Colossus notice was issued to claimants where no liability existed. For example, the Colossus letter was sent to the claimant in CPA025 three days after she admitted negligence and would have been barred from any BI recovery. In CPA046, the Colossus letter(s) were mailed to two claimants behind the insured vehicle in a four car pile-up. In CPA074, the claimant admitted to failing to stop at a red light. The Company sent the Colossus letter to this claimant even though he was liable for the loss.

The system generated Colossus letters, instituted by the Company to comply with the Multi-State Market Conduct Regulatory Agreement, conflicted with the claim facts as described above and were not relevant to the claims.

*As previously stated by the Company, a mechanized process was implemented following the Multi-State Market Conduct Regulatory Agreement (for which Virginia was a Participating Regulator) to send out the Colossus notice each time bodily injury coverage was opened during the course of a claim. This process complies with the terms of the Agreement, and is the best way to help ensure that all claimants receive the notice if there is the potential for Allstate to utilize the Colossus tool as part of the evaluation process. Periodically a claim may settle, or the issue of liability may be resolved against the claimant, during the brief gap in time from when the bodily injury coverage is opened and the notice is sent out. However, these circumstances are rare. The duration of time between opening the coverage and sending the notice is not more than a few days. It is the exception and not the norm to resolve the issues of liability and damages during this short time frame.*

*The Company acknowledges that, in those limited circumstances described above, the Colossus letter may be irrelevant to the claim. However, while perhaps irrelevant, the letter does not misrepresent pertinent facts or policy provisions. It does not state that there is coverage for the claim, or that Allstate will make any payment, or that Colossus will in fact be used to evaluate the claim. The Company further notes that this is a countrywide process, and to date, it is unaware of any widespread confusion by claimants who received the letter under these circumstances.*

*In light of the foregoing, the Company does not believe it would be prudent to alter its mechanized process to address the exception rather than the rule. The mechanized process in place today helps ensure that all claimants uniformly receive the notice, thus living into the Agreement. If the trigger for sending out the notice was not mechanized, there would be a greater risk for the letter not being sent due to human error. The purpose of implementing a mechanized process was to remove the element of human discretion to avoid the potential for errors and inconsistencies.*

*The Company submits that the exceptions acknowledged above do not rise to the level of a violation of Virginia law. Nonetheless, the Company anticipates that it will review its process for providing notice to claimants to identify the potential for improvements when the Agreement expires (December 31, 2015). Clearly, addressing the issues highlighted by the exam would be an important part of any such review. Any changes made as a result of that review would not be implemented until 2016.*

The violation for CPA028 remains in the Report. As the Company indicated in its Response, the "referenced Total Loss vs Repair report is incomplete". This violation pertained to this specific area of the total loss process, not the fact that the vehicle was a total loss in general.

*The Company agrees with the examiners observation.*

The violation for CPA041 remains in the Report. A claim file note dated January 13, 2014 stated that the insured needed the Company to return her call "ASAP". The Company mailed a letter to the insured the next day alluding to an unsubstantiated conversation.

*The Company agrees with the examiners observation.*

The violation in CPA070 remains in part in the Report, in part. Item one of the violations is removed. Item two remains in the Report. The Company should have advised the insured that a stop pay was placed on the draft and negotiating the draft would result in fees being assessed. Item three remains in the Report. The Company should have advised the insured of his rights regarding the subrogation of his out-of-pocket rental expense.

*The Company respectfully disagrees with the examiners observation. On item 2 the Company respectfully disagrees for all reasons previously stated. Since the insured advised us on 12/16/12 that she was returning the check, it was reasonable to cancel same check. The Company's actions were consistent with the information and direction provided by the insured. On item three, the Company submits that the insured's out-of-pocket was entirely CDW rental expenses that the insured was advised on 12/23/2012 would not be compensable. Since this was not a compensable out-of-pocket expense, and there is no affirmative duty to include this amount in any subrogation matter, it would not have been appropriate for the Company to advise the insured of his rights regarding subrogation.*

After further review, the violations for CPA018, CPA034, CPA048, CPA052, CPA056, CPA060, CPA074, CPA079 and CPA091 are withdrawn from the Report.

- (2) After further review, the violation for CPA112 is withdrawn from the Report.
- (3) After further review, the violation for CPA056 is withdrawn from the Report.

- (4) The violation for CPA051 remains in the Report. The insured "filed" the claim seeking payment. This act went above and beyond an inquiry.

*The Company agrees with the examiners observation.*

The violation for CPA111 remains in the Report. . The claimant filed a claim seeking indemnification for the loss. The Company investigated the facts of the loss and determined that the insured vehicle had been removed from the policy prior to the loss. The Company verbally advised the claimant that he could not be paid because he was at fault. The Company did not issue a written denial to the claimant.

*The Company agrees with the examiners observation.*

- (7) After further review, the violations for CPA004 and CPA010 have been withdrawn from the Report. The Report has been renumbered to reflect this change.

- (8a) The violation for CPA047 remains in the Report. The Company noted in their Response that "The statute [8.01-66] does not prohibit a daily rate, it merely requires that such a rate equate to a comparable substitute. Prior to 1994 § 38.2-2230 of the Code of Virginia allowed for a daily limit for temporary substitute vehicles. The Code was changed in 1994 to eliminate the daily limit. Daily limits are not allowed in Virginia. The Company contends that the daily rates quoted equate to a comparable substitute vehicle." The Company agreed to a daily rate of \$31.25 without knowing the actual cost of a comparable vehicle. The insured's vehicle was a 2011 Mercedes Benz E350.

*The Company agrees with the examiners observation.*

The violation for CPA119 remains in the Report. The company cannot document the cost of a comparable vehicle.

*The Company agrees with the examiners observation.*

The violation for CPA081 remains in the Report. The Company's position that it would not be responsible for any "unreasonable shop delays" is too general or too broad for it to apply to all claims and/or all repair circumstances. A delay in the repair, not due to the insured or claimant would warrant an inquiry into the reason for the delay. If the delay was beyond the control of the repair facility or within the control of the repair facility, the Company's duty related to the "unreasonable shop delays" does not end by conveying this position to the insured or claimant in a general statement that pretends to be applicable to all auto repair scenarios.

*The Company agrees with the examiners observation.*

- (8b) After further review, the violation for CPA102 has been withdrawn from the Report.
- (9) The violation for CPA095 remains in the Report. This violation relates to the Company's failure to promptly investigate, identify and pay the insured for the bill that was received by the Company on June 3, 2013. Payment was not released until August 22, 2013. The Company placed this file on a 60 day diary which resulted in the aforementioned bill being overlooked. This violation is separate and distinct from the violation chronicled in review sheet number ClaimVehPPA470291038; the latter violation was triggered due to the Company's failure to acknowledge the bill submitted by the insured within ten business days considering it was not handled by the Company until August.

*The Company agrees with the examiners observation.*

The violation for CPA034 remains in the Report. The responding police officer indicated that the vehicle was a 2003 Toyota Corolla owned by the

policyholder. The insured's daughter was operating the vehicle at the time of the loss. The police report does indicate the daughter's address matched the policyholder's address. The Company's investigation never recognized why the information in the police report conflicted with the adjuster's entry of February 27, 2013.

*The Company agrees with the examiners observation.*

The violation for CPA103 remains in the Report. The insured was driving his girlfriend's vehicle at the time of the loss. The Company attempted to settle the BI claim before it completed its investigation. The September 13, 2012 (7:20 A.M.) entry reads in part "advised liability pending contact with insd [sic] driver...but appears we owe..." Two minutes later an entry was made noting that the Company "...offered to project some costs for b/l settlement and she declined...she...would prefer to wait until she see hos [sic] she feels." At 12:18 P.M., the insured advised the Company that he was driving his girlfriends' vehicle. The Company attempted to settle the BI claim prior to establishing coverage.

*The Company agrees with the examiners observation.*

The violation for CPA059 remains in the Report. The Company noted in its response that "the PD payment was premature and ultimately inconsistent with their determination of liability. However, the Company submits that the overall investigation was complete and proper." This violation addresses the fact that the Company made two Property Damage payments totaling \$6,593 before completing the investigation which concluded that both the insured and claimant contributed to this loss. The Company eventually denied the claimant's BI claim. Concerning estoppel, the examiner did not assert that the Company's action created an exposure of same but that the Company never considered possible consequences of denying the BI liability claim while paying the Property Damage liability claim.

*The Company agrees with the examiners observation.*

The violation for CPA076 remains in the Report. The estimate lacked any information on the part of the entity repairing the trailer (business name, address, phone number, etc.). The February 7, 2013 estimate states that the "clmt poi [sic] was the trailer on the right side messing up fender..." The estimate includes the "Brake Axle" for \$830.00. Either the Company's description of the damage is inaccurate (i.e. fender) or the estimate is inflated; either way, the investigation did not secure the police report which could have provided the point of impact and/or damage description.

*The Company agrees with the examiners observation.*

The violation for CPA068 remains in the Report. The policyholder believed she "should have comp [sic] coverage"; it was also noted "Please look into this." The policyholder's position that she "should" have Comprehensive coverage, needed to be verified with the Agent of record.

*The Company agrees with the examiners observation.*

The violation for CPA082 remains in the Report. The Company sent the insured a letter dated February 19, 2013 that advised same that the "towing and storage fees incurred" would not be covered after February 20, 2013 - the very next day. Giving the insured one day notice was unreasonable and further, providing this notice via traditional mail instead of email (the total loss evaluation was emailed) was punitive to the insured. Finally, the Company

should not have referenced "towing and storage fees incurred" as the Company owed the towing expense regardless of the negotiated outcome.

*The Company agrees with the examiners observation.*

The violation for CPA061 remains in the Report. Although the total loss offer was extended to the claimant on October 6, 2012 and the rental was approved to October 11, 2012, the CCC evaluation was not mailed until October 9, 2012. This same day, the claimant was advised that he would be liable for the storage charges going forward and on October 10, 2012, the claimant was advised that the rental would not be extended. The Company's actions limited the claimant's ability to analyze the CCC evaluation and verify that the offer was accurate; this in light of the fact that the claimant was responsible for the on-going storage and rental charges.

*The Company agrees with the examiners observation.*

After further review, the violations for CPA055, CPA086, CPA087 and CPA108 have been withdrawn from the Report.

- (10) After further review, the violation for CPA094 has been withdrawn from the Report.

The violation for CPA045 remains in the Report. The Company failed to pay the \$300.00 owed to the insured under the Uninsured Property Damage coverage until four months after the Company paid the collision coverage. It is this delay, coupled with the fact that the "DRP" shop collected the insured's full Collision deductible at the time of the repair that resulted in this violation.

*The Company agrees with the examiners observation.*

- (11) The violations for CPA017, CPA019, CPA022, CPA025, CPA029, CPA031, CPA038, CPA048, CPA052, CPA056, CPA061, CPA064, CPA069, CPA082, CPA086, CPA109, CPA112, and CPA118 remain in the Report. The Company is applying two different coverages for the same type of loss.

The Company is separately coding the glass under comprehensive coverage with a standard value of \$75 for total losses caused by collision. The Company is allowing the glass breakage to be covered again under the collision coverage, even though there is no evidence of glass damage. The Company should cover losses under the correct coverage. If the loss is a comprehensive loss, ALL damage should be paid under other than collision (OTC) coverage. If the loss is caused by collision, ALL damage should be paid under collision, not \$75 allocated to OTC as there is first, no glass damage and second, no evidence of an OTC loss. It appears that the Company is reporting inflated OTC claims (glass losses) in its statistical reporting.

***The Company continues to respectfully disagree with the examiner's observations. To clarify, glass is not covered twice (under both comprehensive and collision coverage) on each loss. The Bureau's statement that the Company is coding glass under comprehensive coverage, and then covering it again under collision, is inaccurate. The Allstate auto policy specifically defines loss caused by breakage of glass as other than collision. Accordingly, the representative cost of glass breakage is covered under 'other than collision' coverage and the remaining damages are covered under collision coverage. Therefore, losses are covered under the correct coverage as defined by the Allstate policy.***

*Further, Virginia law requires the Company to notify its insureds of the coverages under which the payments were made. As payment for the representative cost of the breakage of glass was made under comprehensive coverage, it is appropriate and required by Virginia law to include that coverage, in addition to collision, on the settlement draft.*

*Allstate wishes to reiterate that the practice of covering the breakage of glass under comprehensive coverage has been in place for over 20 years in Virginia. This practice does not adversely impact the insured. It does not lower the compensation the insured would receive for a loss. It does not result in the reporting of multiple losses for one event. It does not result in multiple surcharges for the same loss. Therefore, the Company respectfully submits that a process change as contemplated by the Bureau is neither necessary or required under Virginia law, and would not result in any appreciable benefit to our insureds.*

(12a) After further review, the violation for CPA010 has been withdrawn from the Report.

### **Other Law Violations**

After further review, the violations for CPA093 have been withdrawn from the Report.

### **Homeowner Claims**

(1) The violation for CHO015 remains in the Report. It was not possible to determine the course of the claim handling from October 29, 2012 through January 16, 2014. The Company cannot account for any file activity during this period of time.

The Company has referenced review sheet 0253578801 in their response. The Bureau is unable to locate any review sheet generated with this number. Our records show only one violation on this claim. If the Company has evidence of a review sheet with this number please provide copies with your response to this letter.

*The Company agrees with the examiners observation and offers no further information regarding this violation.*

After further review, the violation for CHO008 has been removed from the Report.

The violation for CHO053 remains in the Report. The Company cannot document their application of 90% depreciation on an antique sword and an antique train set valued together at \$3,050.00 of which the Company paid \$84.97.

*The Company agrees with the examiners observation.*

The violation for CHO027 remains in the Report. The information obtained during the examination, as well as the information provided in Exhibit 8 identifies the age and use for each item. However, the average life expectancy of each item was not included. This information is essential in determining the amount of depreciation taken for each year.

*The Company agrees with the examiners observation.*

After further review, the violation for CHO016 has been withdrawn from the Report.

The violation for CHO018 remains in the Report. The Company is inconsistent in its application of depreciation as is evidenced in items seven and eight in the inventory list included in exhibit seven.

*The Company agrees with the examiners observation.*

*The Company did not receive a response to CHO105. The Company respectfully disagrees with the violation for all reasons previously stated.*

After further review, the violation for CHO062 has been withdrawn from the Report.

(2a) After further review, the violation for CHO025 has been withdrawn from the Report.

*The Company agrees with the examiners observation on CHO008.*

(2c) After further review, the violations for CHO040, CHO75 and CHO111 have been withdrawn from the Report.

(2d) The violation for CHO06 remains in the Report. The Company has consistently maintained that the loss was determined to have occurred by the

peril of wind instead of lightning and therefore benefits available under Additional Protection coverage for lightning losses were not pertinent to the claim. The first notice of loss dated June 29, 2012 describes the loss as "tree on home" and the peril as "lightning". The Company's National Catastrophe Team inspected the insured's premises on July 3, 2012 and described the loss as lightning. From July 16, 2012 to November 5, 2012, the Company issued 9 payments totaling \$150,710.40, each with the notation, "In payment for dwelling for Lightning Loss for Date of Loss June 29, 2012".

*The Company agrees with the examiners observation.*

Reference to general business practice has been withdrawn from this review item.

- (3) The violation for CHO004 has been withdrawn from the Report.
- (4) The violation for CHO063 remains in the Report. The file is documented in two different places that it is the Company's practice not to send a written denial in the event of catastrophes. The insured presented a claim for damages to the dwelling as a result of flooding. The Company determined on August 27, 2012 that no coverage existed for flood damage. The insured withdrew his claim on August 29, 2012. However, this occurred two days *after* the Company determined that no coverage existed. On August 31, 2012, the claims file states that the claim was closed without payment and that a denial letter is not required. Coverage was denied and a denial letter should have been provided to the insured.

*The Company respectfully disagrees with the examiners observations on this violation. No determination of coverage was made on 08/27/2012 merely a recitation of a possible exclusion – flood. The insured was contacted to further investigate coverage on 08/29/2012 at which time the insured advised he had made a claim with FEMA and was withdrawing his claim with the Company. The notation that no denial letter was needed was due to the fact the insured has withdrawn his claim. The claim was never denied.*

The violation for CHO075 remains in the Report. The insured submitted a claim on April 26, 2012 for a safe (\$525), light bulbs (\$9.16) and paint (\$18.96). The insured identified these specific items on the credit card list. None of these items were included in the settlement. The Company's letter only advised the insured regarding Additional Living Expenses. The letter did not address or deny the above items that were not reimbursed by the Company but were claimed by the insured.

*The Company agrees with the examiners observation.*

- (5a) After further review, the violations for CHO004 and CHO008 have been withdrawn from the Report. The violation for CHO008 has been rewritten under review sheet ClaimPropHO1409236451 and now appears under item (2a) in the Report. The Report has been revised to reflect this change.
- (5c) After further review, the violations for CHO025 and CHO027 have been withdrawn from the Report.

The violation for CHO052 remains in the Report. The Company's Xact estimate of July 27, 2012, specifically identifies "Air mover (per 24 hour period) No monitoring" and "Dehumidifier in use for 7 days (per 24 hour period) No monitoring" for four separate areas of the insured's dwelling. The insured's e-mail of March 22, 2012 advised that while unpacking items in storage for over 6 months, 19 loads of laundry were washed and dried. The Company did not advise the insured that her policy would cover the utility expenses exceeding prior average use.

***The Company agrees with the examiners observation.***

After further review, the violation for CHO075 has been withdrawn from the Report.

- (5d) After further review, the violations for CHO004 and CHO016 have been withdrawn from the Report.

The violation for CH052 remains in the Report. The insured advised the Company, on October 16, 2013, that the TV claimed as part of the loss of June 29, 2012 was a 27 inch TV and not a 19 inch as originally reported. The Company's claim notes dated September 20, 2013 informed the insured of the Company's ability to verify prices for a 19 inch TV or the next size up.

***The Company agrees with the examiners observation.***

The violation for CHO053 remains in the Report. The Company in its response identified the review sheet as 62734790. The correct number is 627347990. The Company stated in their Response "the insured represented, and the police report listed, the G Scale train as a collectible item. Therefore, no depreciation was taken". The insured reported to the Company that an antique sword for display with sheath 50 Years old valued at \$800 was bought at an antique show. The original police report by the investigating officer also verified that the sword was an antique and was valued at \$800. The same criteria used in determining the value of the antique G Scale train as a collectible item was not applied to the antique sword. The Company calculated the replacement value of the sword at \$155.39 using a quote from Wal-Mart of \$147.99 plus \$7.40 tax and taking undocumented depreciation of \$133.19 resulting in the ACV for the item of \$22.20. As a result, the Company under paid the claim for the antique sword by \$817.78 (\$840, includes 5% sales tax of \$40, less \$22.20). The insured included in his loss the theft of a 40 year old HO scale trains valued at \$850. The original police report showed the same value of \$850. The Company arrived at a replacement cost value of \$849.75 with undocumented depreciation of \$764.78 resulting in an ACV of \$84.97. The Company should contact the insured to determine if these trains are in fact collectibles. An individual appointed to speak on the insured's behalf advised the Company that a 51 or 52 inch Panasonic TV worth \$900 and only 8 months old was included as one of the stolen items. The police report verified the insured's description and value of \$900. The insured also provided the Company with documentation from HHGreg documenting the price of a 51 inch class Plasma TV at \$899.95 adding sales tax of \$45 (5%) and subtracting depreciation of \$46.90 results in an ACV of \$898.05. The Company estimated the value of \$699.99 with 5% sales tax resulting in replacement costs of \$734.99 less depreciation of \$46.90 resulting in actual cash value of \$688.09. The Company's response to the preliminary report acknowledges the fact that the TV set was substantiated by the price tag. The difference between the insured's documented value of the item and the Company's undocumented value results in an under payment due the insured of \$209.96. The insured and police report set the value of the stolen pocket watch at \$100. The initial police report identified the watch as an antique and the insured description indicated that it included a picture of a train. The Company's response to the preliminary Report stated that the insured was unable to provide any documentation to substantiate the claim value of \$100. The Company

assigned an undocumented value of \$36.23 plus tax in the amount of \$1.81 (5% x \$36.23) less depreciation of \$27.17 resulting in an ACV value of \$9.06. This did not appear to apply to the collectible antique trains as the Company paid the amount claimed by the insured without documentation to substantiate the claimed value of \$2,200. The insured originally reported the refrigerator as being 5.1 cubic feet. However, the Company failed to address with the insured the documentation received from him identifying the freezer size and 16.71 ft. The Company's method used in assessing values for each item appears to be inconsistent. The company should reopen the claim and pay the total underpayments of \$1027.36 (\$817.40 for the antique sword plus \$209.96 for TV).

*The Company agrees with the examiners observation.*

Based upon NAIC guidelines the violation of any one statute or regulation that exceeds 7% of the sample is considered a general business practice. The sample selected for the Claims Homeowners review was 117. Seven percent of 117 is 8.19. There are currently ten violations of this regulation causing this to constitute a general business practice.

- (6a) The violation for CHO004 remains in the Report. The Company's initial response to the review sheet indicated that a copy of the tree removal invoice would be sent under separate cover. The Company's response to the preliminary report reiterated the company's position, but did not include a copy of the invoice for review.

*The Company will provide a copy of the invoice. Claim Attachment 1*

The violation for CHO102 remains in the Report. The examiner's original observations referred to the Company's letter to the insured dated 8/16/12. The letter states "Below, we've included the actual language from your policy for your review". The language that followed did not track the verbiage in the policy. The Company has admitted that the verbiage contained in the letter does not track with that of policy.

***The Company agrees with the examiners observation.***

After further review, the violations for CHO029 and CHO049 have been withdrawn from the Report. The Report has been revised to reflect this change.

- (6b) The violations for CHO010, CHO020, CHO018, CHO032, CHO065 and CHO091 remain in the Report. The wording used in the Company's settlement letter states that the insured must notify the company within six months of the date of actual cash value payment of their intent to repair rebuild or replace the property. The insured's Homeowners policy specifically states that the company will pay for loss with the difference between the ACV and full replacement costs within six months of the latter (1) the last date on which you receive actual cash value payment for the covered property. The exclusion of the word "last" does not accurately reflect the verbiage in the insured's policy.

***The Company agrees with the examiners observations and has updated its letters to include the word "last".***

The violation for CHO011 remains in the Report. The Company did not advise the insured when issuing payment for unscheduled personal property that he/she could make a claim for additional payments within six months of the last date of an actual cash payment.

***The Company agrees with the examiners observation.***

The violation for CHO033 remains in the Report. The "Payment Worksheet for AA-Dwelling" showed replacement costs on the dwelling of \$4,116.06. Depreciation in the amount \$799.58 was taken along with the \$500 deductible, leaving an outstanding ACV settlement of \$2,816.48. A check was issued on 2/8/13 in the amount of \$2,816.48. The payment did not include a letter or statement to the insured advising them of the Company's obligations to the insured concerning replacement cost.

***The Company agrees with the examiners observation.***

- (7) After further review, the violation for CHO049 has been withdrawn from the Report. The Report has been revised to reflect this change.

The violation for CHO052 remains in the Report. As stated in the examiner's original observations, the claim occurred on 6/29/12. The company acknowledges that the loss was reported on 7/3/12, and a field inspection was completed on 7/13/12. The file notes indicate and the Company has verified that adjuster waited until 8/1/12 to complete an estimate on the damages to the insured's dwelling. The time the insured reported the loss until the estimate was completed was approximately one month.

***The Company respectfully disagrees with the violation. The delay until 8/1/12 to complete an estimate was solely due to the contractor the insured retained, over which Allstate had no control, but with whom Allstate needed to work in order to complete the estimate. . The delays in completing the estimate were not caused by, or within the control, of Allstate.***

After further review, the violation for CHO075 has been withdrawn from the Report. The Report has been revised to reflect this change.

The violation for CHO106 remains in the Report. The loss occurred on 10/13/12. The first notice of loss dated 10/22/12 identified the claim as a result of vandalism/malicious mischief. The contractor performing the repairs to the damaged property indicated that the top to the septic system was caved in and that the whole tank would need to be replaced. The Company did not inspect the property or determine that the loss occurred directly as a result of vandalism. In response to the preliminary report, the Company concluded that the only "reasonable" explanation was that a vehicle drove over that portion of the yard where the tank was buried and caused the concrete to break. The lack of implementing reasonable standards for the prompt investigation of claims led to the "assumption" that the cause of loss was vandalism.

*The Company agrees with the examiners observation.*

- (8) After further review, the violation for CHO060 has been withdrawn from the Report. The Report has been renumbered to reflect this change.

*The Company respectfully requests that this item be removed from the restitution log as well.*

- (9) The violation for CHO049 remains in the Report. The Company paid a total of \$322,361 for damages done to the insured's dwelling. An additional \$46,830 was paid under the ALE coverage. The Company made a \$5,000 advance to the insured for damage to personal property. On 7/26/12, the insured requested an additional advance of \$10,000. The Company would not agree to the advance even though the Company was well aware that the roof was severely damaged along with the top floor of the dwelling, and that property damage would exceed the requested advance in the amount of \$10,000. As of 12/22/12, the company issued a partial payment for the personal property of \$50,404.15. This payment was approximately 6 months after the loss. The total paid on the Claim for Personal Property/contents was \$190,390. The

advancement of \$10,000 would have been reasonable given the overall damages to the dwelling and personal property.

*The Company agrees with the examiners observation.*

- (10) After further review, the violation for CHO041 has been withdrawn from the Report. The Report has been revised to reflect this change.

The violation for CHO079 remains in the Report for the reason outlined in the Bureau's response to the private passenger claims section of this Report.

***The Company respectfully disagrees with this alleged finding. The Company previously responded to this violation under the auto portion of this regulation within this report.***

The violations for CHO107 and CHO108 remain in the Report. Initial checks issued for both CHO107 and CHO108 contained the following wording "In payment for, Dwelling, Other Structures and Unscheduled, Personal Property for Flood-with NFIP (National Flood Insurance Policy) Loss for date of Loss 10/29/12." The checks should have advised the insured of the pertinent coverages applicable to the homeowner's policy instead of coverages through the NFIP.

***The Company agrees with the examiners observation.***

- (12a) The violation for CHO079 remains in the Report. The file notes entered by the Company do not state that the damage was not caused by rot. The Company simply used different wording to state that the wood was damaged but it was not specific as to what caused the damage to the wood.

***The Company respectfully disagrees with this violation. This violation is on CH0119. The photos submitted by the contractor showed no rot just wind damage. Payment in this instance was proper.***

Homeowner Forms

- (2) After further review the violation for FH0118 is withdrawn.

***The company appreciates the examiners consideration and removal of the above noted items***

#### **General Statutory Notices**

- (3) The violations in this section remain in the Report. The Adverse Underwriting Decision must advise the person where to make a written request for additional information. An assumption cannot be made that the person would know to reference an address shown in unrelated documents that are included in the mailing. Additionally, the Company's notice does not advise the person of the 90-Day time limitation that begins at date of the mailing.

***The company acknowledges the examiners observation and will make the necessary changes to our notices.***

#### **Statutory Vehicle Notices**

- (1a) the violations in this Section remain in the Report. It is the Company's practice to obtain credit. This should be clearly communicated in the Company's notice. Should the customer wish to have a copy of the report, the customer should be given the option to contact the Company for a copy.

***The notices the company provide direct consumers who wish to view their report to TransUnion, the third party vendor that we obtain the credit information from. Allstate does not retain copies of their credit report for viewing or distribution. We believe the information in the notices providing address and toll free number to contact trans Union for the reports meets the requirements set forth in the statute.***

(1b) after further review, the violations in this section have been withdrawn.

*The company appreciates the examiners consideration and removal of the above noted items*

#### **Statutory Property Notices**

(1a) the violations in this Section remain in the Report. It is the Company's practice to obtain credit. This should be clearly communicated in the Company's notice. Should the customer wish to have a copy of the report, the customer should be given the option to contact the Company for a copy.

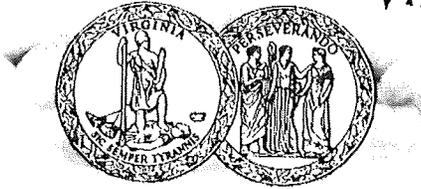
*The notices the company provide direct consumers who wish to view their report to TransUnion, the third party vendor that we obtain the credit information from. Allstate does not retain copies of their credit report for viewing or distribution. We believe the information in the notices providing address and toll free number to contact trans Union for the reports meets the requirements set forth in the statute*

(1b) after further review, the violations in this section have been withdrawn from the Report.

*The company appreciates the examiners consideration and removal of the above noted items*

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
TELEPHONE: (804) 371-9741  
TDD/VOICE: (804) 371-9206  
<http://www.scc.virginia.gov/division/boi>

December 9, 2014

## VIA UPS 2<sup>nd</sup> DAY DELIVERY

Tom Mathes  
State Manager  
Allstate Insurance Co.  
15000 Conference Center Drive  
Chantilly, VA 20151-3842

RE: Market Conduct Examination  
Allstate Insurance Co. (NAIC # 19232)  
Allstate Indemnity Co. (NAIC # 19240)  
Allstate Property and Casualty Ins. Co. (NAIC # 17230)  
Examination Period: June 1, 2012 – May 31, 2013

Dear Mr. Mathes:

The Bureau of Insurance (Bureau) has reviewed the October 30, 2014 response to the Revised Market Conduct Report (Report) of Allstate Insurance Company, Allstate Indemnity Insurance Company, and Allstate Property and Casualty Insurance Company (Company). The Bureau has referenced only those items in which the Company has disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

## PART ONE – THE EXAMINERS' OBSERVATIONS

### Rating and Underwriting

#### Homeowners Renewal Business

(3e) After further review the violation of RHO028 has been withdrawn.

#### Claims Review

#### Private Passenger Automobile Claims

(1) The violations related to the Company's Colossus software program remain in the Report. It is the Bureau's position that insureds and claimants receive

relevant communications regarding their claims. The Bureau accepts the Company's plan for resolution of this matter.

The violation in CPA070 remains in part in the Report. The Company was aware that repairs were completed prior to the stop payment of the draft. The Company should have advised the insured that a stop payment could result in a delay in releasing the vehicle. Further, the company issued a stop payment on the draft before the insured returned it. Concerning the out-of-pocket rental expense, the Company assumed the duty of recovery on behalf of the insured through making recovery attempts on similar claims reviewed during this examination. The Company's claims practice must be consistent.

- (11) The violations in this section remain in the Report. The Personal Auto Policy defines "Collision" as "...the upset of "your covered auto"...or their impact with another vehicle or object". Collision is not defined as "breakage of glass". The Personal Auto Policy clearly defines breakage of glass as Other Than Collision, i.e. "Loss caused by the following is considered other than "collision", 10. Breakage of glass".

The losses involved in these violations were not "caused by" Other Than Collision but were instead caused by an "impact with another vehicle or object". The Company cannot randomly select the cause of loss as Other Than Collision when it was not. Glass breakage can only be covered under the Other Than Collision coverage. The only policy exception to this is if there was glass breakage as a result of a collision, then the glass can be covered under "collision" if the insured elects it to be "considered a loss caused by "collision". The policy does not permit the reversal which is what the Company has chosen to do.

Finally, under Part D paragraph A, the Insuring Agreement states that the Company "...will pay for direct and accidental loss to "your covered auto". The Company is applying Other Than Collision coverage when there is no direct loss as a result of Other Than Collision. This conflicts with the policy provisions.

### Homeowner Claims

- (1) After further review, the violation for CHO105 has been withdrawn from the Report.
- (4) The violation for CHO063 remains in the Report. The file clearly states "If loss not covered, pls. handle as a phone denial." The loss was not covered due to the flood exclusion. Virginia Regulation 14-VAC 5-400-70 A requires that the insured be provided a written denial.
- (6a) After review of the invoice provided in the Company's response, CHO004 is removed from the Report.

- (7) The violation for CHO052 remains in the Report. The existence of a contractor did not preclude the Company from writing an estimate of the damage.
- (8) The Restitution Spreadsheet has been revised to reflect the correct underpayment for CHO060.
- (10) The violation for CHO079 remains in the Report for the reason outlined in the Bureau's response to the private passenger claims section of this Report. (\$75 Glass issue)

The violation for CHO119 remains in the Report. The contractor's letter dated 7/11/2013 states "...we discovered significant wood rot and water damage, after the siding was removed. This was not able to be foreseen when estimating the repair."

#### **Statutory Vehicle Notices**

- (1a) The violations in this Section remain in the Report. It is the Company's practice to obtain credit. The Company's notice states that it "may" obtain credit when in practice, the Company will and does obtain credit. This should be clearly communicated in the event the customer chooses to refuse a credit inquiry. Additionally, the customer should be given the option of contacting the Company should the customer need direction concerning obtaining additional information regarding his credit.

#### **Statutory Property Notices**

- (1a) The violations in this Section remain in the Report. It is the Company's practice to obtain credit. The Company's notice states that it "may" obtain credit when in practice, the Company will and does obtain credit. This should be clearly communicated in the event the customer chooses to refuse a credit inquiry. Additionally, the customer should be given the option of contacting the Company should the customer need direction concerning obtaining additional information regarding his credit.

### **PART TWO – CORRECTIVE ACTION PLAN**

#### **Claims**

- (7) The Companies' Corrective Action Plan states they will revise the replacement cost letter to state 6 months from the last date of payment. The Companies' letter must follow the policy provision which provides 6 months from the last ACV payment.

## Notices

- (1-5) The Companies' Corrective Action Plan states that they will update forms and file them with the Bureau. The violations and resulting CAP in this area involves notices. Notices are not forms and therefore are required to be filed with the Bureau. The Companies should correct the notices internally. If the Companies wish to have the Bureau review their draft notices, the Bureau's Market Conduct Section is available for assistance.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet and any review sheets withdrawn, added or altered as a result of this review. The Companies' response to this letter is due in the Bureau's office by January 6, 2015.

Sincerely,

Joy M. Morton  
Supervisor  
Market Conduct Section  
Property and Casualty Division  
(804) 371-9540  
[joy.morton@scc.virginia.gov](mailto:joy.morton@scc.virginia.gov)

Enclosures



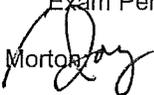
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L. Noel Patterson, Jr.  
Regional Counsel  
Law and Regulation

March 16, 2015

Virginia Bureau of Insurance  
Joy M. Morton, Supervisor  
Market Conduct Section  
Property and Casualty Division  
P.O. Box 1157  
Richmond, Virginia 23218

RE: Market Conduct Examination  
Allstate Insurance Company #19232  
Allstate Indemnity Company #19240  
Allstate Property and Casualty Company #17230  
Exam Period: June 1, 2012 through May 31, 2013

Ms. Morton 

I would like to thank you and your team for taking the time on February 10, 2015, and again on March 4, 2015, to discuss Allstate's practice of split coding the glass breakage portion of a total loss claim caused by a collision to comprehensive coverage. Allstate acknowledges the Bureau's position on this matter. However, we respectfully continue to disagree for all the reasons previously stated.

Allstate continues to submit that its practice is consistent with the terms of the Virginia Personal Auto Policy and does not violate Virginia law. However, in an effort to resolve this final outstanding issue, and in the spirit of compromise, Allstate will revise its practice per the Bureau's request.

Moving forward, for policyholders with both comprehensive and collision coverage, Allstate will cease split coding the glass breakage portion of the total loss caused by a collision to comprehensive coverage. As previously stated, this split-coding practice is a countrywide process and this change will apply to Virginia policyholders only. Allstate anticipates implementing this Virginia stand-alone process by June 1, 2015.

As previously discussed, unlike with total losses, the amount coded to comprehensive coverage for glass breakage in repairable losses caused by a collision is the actual amount to repair/replace the glass. Therefore, since the actual invoiced amount is used, this practice as it applies to repairable vehicles only will remain in place.

Thank you again for working with Allstate to bring this matter to a close. Should you require any additional information, or wish to discuss further, please feel free to contact me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "L. Noel Patterson, Jr.", with a large, sweeping flourish extending to the right.

L. Noel Patterson, Jr.



L. Noel Patterson, Jr.  
Regional Counsel, Capital  
Region  
Law & Regulation

May 22, 2015

Mary Bannister  
Deputy Commissioner  
Property and Casualty Bureau of Insurance  
P. O. Box 1157  
Richmond, VA 23218

RE: Market Conduct Examination Settlement Offer

400111

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter May 5, 2015 concerning the above referenced matter.

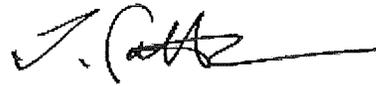
We wish to make a settlement offer on behalf of the insurance companies listed below for the alleged violations of §§ 38.2-305 A, 38.2-317 A, 38.2-502, 38.2-510 A 1, 38.2-510 A 3, 38.2-510 A 10, 38.2-604 A, 38.2-604 B, 38.2-604.1, 38.2-610 A, 38.2-1318, 38.2-1822, 38.2-1833, 38.2-1905 A, 38.2-1906 A, 38.2-1906 D, 38.2-2113 C, 38.2-2114 A, 38.2-2114 E, 38.2-2124, 38.2-2126 A, 38.2-2208 B, 38.2-2212 E, 38.2-2212 F, 38.2-2214, 38.2-2220, and 38.2-2234 of the Code of Virginia as well as 14 VAC 5-400-30 and 14 VAC 5-400-70 D of the Virginia Administrative Code.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$172,500.00.
2. We agree to comply with the corrective action plan set forth in the companies' letters of October 30, 2014 and March 16, 2015.
3. We confirm that restitution was made to 126 consumers for \$24,701.85 in accordance with the companies' letter of October 30, 2015.
4. We further acknowledge the companies' right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely,

Allstate Insurance Company  
Allstate Indemnity Company  
Allstate Property and Casualty Insurance Company



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L. Noel Patterson, Jr.

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Regional Counsel

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May 22, 2015

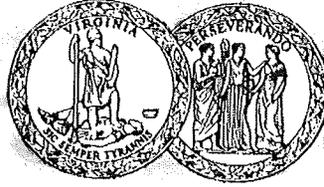
Title

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Date

Enclosure

# COMMONWEALTH OF VIRGINIA



JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
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Allstate Insurance Companies have tendered to the Bureau of Insurance the settlement amount of \$172,500.00 by their check numbered 1003042373 and dated May 26, 2015, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 15, 2015

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COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2015-00063

ALLSTATE INDEMNITY COMPANY,  
ALLSTATE INSURANCE COMPANY,  
and  
ALLSTATE PROPERTY AND CASUALTY  
INSURANCE COMPANY,

Defendants

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Allstate Indemnity Company, Allstate Insurance Company, and Allstate Property and Casualty Insurance Company (collectively, "Defendants"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Commonwealth"), violated: § 38.2-305 A of the Code of Virginia ("Code") by failing to provide the information required in the statute; § 38.2-317 A of the Code by issuing insurance policies or endorsements without having filed such policies or endorsements with the Commission at least 30 days prior to their effective date; § 38.2-502 of the Code by misrepresenting the benefits, advantages, conditions or terms of insurance policies; §§ 38.2-510 A (1), 38.2-510 A (3), and 38.2-510 A (10) of the Code, as well as 14 VAC 5-400-30 and 14 VAC 5-400-70 D of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*, by failing to properly handle claims with such frequency as to indicate a general business practice; §§ 38.2-604 A, 38.2-604 B, 38.2-604.1, 38.2-2124, 38.2-2126 A, and 38.2-2234 A of the Code by failing to accurately provide the

required notices to insureds; § 38.2-610 A of the Code by failing to accurately provide the required adverse underwriting decision and reasons to insureds; § 38.2-1318 of the Code by failing to provide convenient access to files, documents and records; § 38.2-1822 of the Code by knowingly permitting persons to act as agents without first obtaining a license in the manner and form prescribed by the Commission; § 38.2-1833 of the Code by accepting insurance applications from agents who have not been appointed; § 38.2-1905 A of the Code by increasing its insured's premium or charging points under safe driver plans as a result of a motor vehicle accident where the accident was not caused either wholly or partially by the named insured, a resident of the same household, or other customary operator; § 38.2-1906 A of the Code by failing to file all rates and supplemental rate information; § 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendants; §§ 38.2-2113 C, 38.2-2114 A, 38.2-2114 E, 38.2-2208 B, 38.2-2212 E, and 38.2-2212 F of the Code by failing to properly terminate insurance policies; § 38.2-2214 of the Code by failing to provide the insured with rate classification statements; and § 38.2-2220 of the Code by failing to use forms in the precise language of standard forms previously filed and adopted by the Commission.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke a defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendants have been advised of their right to a hearing in this matter whereupon the Defendants, without admitting any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have tendered to the Commonwealth the sum of

One Hundred Seventy-Two Thousand Five Hundred Dollars (\$172,500), waived their right to a hearing, agreed to comply with the corrective action plan set forth in their letters to the Bureau dated October 30, 2014, and March 16, 2015, and confirmed that restitution was made to 126 consumers in the amount of Twenty-four Thousand Seven Hundred One Dollars and Eighty-five Cents (\$24,701.85).

The Bureau has recommended that the Commission accept the offer of settlement of the Defendants pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendants, and the recommendation of the Bureau, is of the opinion that the Defendants' offer should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) The offer of the Defendants in settlement of the matter set forth herein is hereby accepted.
- (2) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:  
Tom Mathes, State Manager, Virginia, Capital Region, Allstate Insurance Company,  
15000 Conference Center Drive, Suite 400, Chantilly, Virginia 20151; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Mary M. Bannister.